

City of Bethlehem, Pennsylvania

Financial Statements and Supplementary Information

Year Ended December 31, 2016 with
Independent Auditor's Report

MaherDuessel

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CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2016

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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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the historical pension plan and other post-employment benefit (OPEB) plan information on pages i through xv, 107 through 108, and 109 through 121, 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 26, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
September 26, 2017

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, 2016 and 2015. 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 \$17,210,618 in 2016 and increased by \$4,375,498 in 2015.

In the City's governmental activities, net position increased by \$13,246,063 in 2016 and increased by 1,380,291 in 2015. In 2016, the increase in net position is the result of an increase of capital grants of \$12.8 million. This was comprised of \$11.6 million in dedicated roads from new development within the City and \$1.4 million in improvements at the Bethlehem Public Library. There was also a real estate tax increase of approximately 2.2%. In 2015, the increase in net position is the result of a real estate tax increase of approximately 6%.

In the City's business-type activities, net position increased by \$3,964,555 in 2016 and increased by \$2,995,207 in 2015. In 2016, the increase is the result of an increase in charges for services of \$1.4 million. Industrial charges in the Water Fund increased by \$400,000; while bulk sewer charges to Bethlehem Township increased by \$433,000. The City also continues to more aggressively replace older meters. The City recognized \$1.5 million in capital grants related to funds received from Lower Nazareth Township to be used towards upgrades to the sewer system. 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. In addition, the Sewer Fund also received a DCED grant for \$1.25 million towards the biosolids dewatering project.

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

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

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

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

Fiduciary Funds

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

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 19-106 of this report.

Other Information

Required supplementary information can be found on pages 107-121 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 122-123 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, 2016 by \$55,798,481 and 2015 by \$73,009,099.

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	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 27,773,162	\$ 28,022,767	\$ 18,931,937	\$ 17,813,323	\$ 46,705,099	\$ 45,836,090
Capital assets	67,920,460	58,187,917	106,776,175	103,980,457	174,696,635	162,168,374
Other assets	4,087,921	4,065,927	15,909,241	18,140,749	19,997,162	22,206,676
Total assets	<u>\$ 99,781,543</u>	<u>\$ 90,276,611</u>	<u>\$ 141,617,353</u>	<u>\$ 139,934,529</u>	<u>\$ 241,398,896</u>	<u>\$ 230,211,140</u>
Deferred outflows of resources	<u>\$ 15,398,147</u>	<u>\$ 14,079,583</u>	<u>\$ 3,412,493</u>	<u>\$ 1,044,038</u>	<u>\$ 18,810,640</u>	<u>\$ 15,123,621</u>
Current liabilities	\$ 16,507,270	\$ 17,139,643	\$ 11,843,895	\$ 13,558,371	\$ 28,351,165	\$ 30,698,014
Noncurrent liabilities	167,837,777	169,627,971	119,561,365	117,727,679	287,399,142	287,355,650
Total liabilities	<u>\$ 184,345,047</u>	<u>\$ 186,767,614</u>	<u>\$ 131,405,260</u>	<u>\$ 131,286,050</u>	<u>\$ 315,750,307</u>	<u>\$ 318,053,664</u>
Deferred inflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 257,710</u>	<u>\$ 290,196</u>	<u>\$ 257,710</u>	<u>\$ 290,196</u>
Net investment in capital assets	\$ 29,956,714	\$ 16,803,717	\$ (735,343)	\$ (2,815,984)	\$ 29,221,371	\$ 13,987,733
Restricted	4,771,714	4,239,767	759,014	727,407	5,530,728	4,967,174
Unrestricted	(103,893,785)	(103,454,904)	13,343,205	11,490,898	(90,550,580)	(91,964,006)
Total net position (deficit)	<u>\$ (69,165,357)</u>	<u>\$ (82,411,420)</u>	<u>\$ 13,366,876</u>	<u>\$ 9,402,321</u>	<u>\$ (55,798,481)</u>	<u>\$ (73,009,099)</u>

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Capital assets in governmental activities increased approximately \$9.7 million. This was due to \$11.6 million in dedicated roads from new development within the City and \$1.4 million in improvements at the Library.

Capital assets in business-type activities increased approximately \$2.8 million. This was primarily due to the new dewatering facility project in the Sewer Fund.

Deferred outflows of resources in business-type activities increased approximately \$2.4 million. This was due to the deferral of investment losses for the PMRS pension plan as of the measurement date of December 31, 2015.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

City's Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Program revenues:						
Charges for services	\$ 12,051,530	\$ 11,885,907	\$ 39,198,970	\$ 37,767,904	\$ 51,250,500	\$ 49,653,811
Operating grants and contributions	19,662,678	17,513,134	-	-	19,662,678	17,513,134
Capital grants and contributions	13,473,531	723,144	1,515,364	1,250,000	14,988,895	1,973,144
General revenues:						
Taxes	39,806,223	37,607,101	-	-	39,806,223	37,607,101
Investment earnings	68,861	40,560	839,778	757,643	908,639	798,203
Unrestricted grants	15,251,510	15,062,447	-	-	15,251,510	15,062,447
Total revenues	100,314,333	82,832,293	41,554,112	39,775,547	141,868,445	122,607,840
Expenses:						
General government	843,944	702,521	-	-	843,944	702,521
Administrative	1,024,640	1,251,108	-	-	1,024,640	1,251,108
Community development	15,767,685	11,617,929	-	-	15,767,685	11,617,929
Parks and public property	5,580,568	4,814,684	-	-	5,580,568	4,814,684
Public works	10,152,649	10,831,542	-	-	10,152,649	10,831,542
Police	23,321,538	22,519,346	-	-	23,321,538	22,519,346
Fire	14,262,715	13,612,028	-	-	14,262,715	13,612,028
General expenditures	10,813,789	11,505,146	-	-	10,813,789	11,505,146
Civic	115,161	110,138	-	-	115,161	110,138
Library	1,479,664	1,387,160	-	-	1,479,664	1,387,160
Program expenditures	2,003,666	1,702,156	-	-	2,003,666	1,702,156
Interest on long-term debt	5,422,707	5,528,291	-	-	5,422,707	5,528,291
Water fund	-	-	19,871,288	19,488,428	19,871,288	19,488,428
Sewer fund	-	-	12,620,382	11,607,580	12,620,382	11,607,580
Other non-major fund	-	-	1,377,431	1,554,285	1,377,431	1,554,285
Total expenses	90,788,726	85,582,049	33,869,101	32,650,293	124,657,827	118,232,342
Change in net position before transfers	9,525,607	(2,749,756)	7,685,011	7,125,254	17,210,618	4,375,498
Transfers	3,720,456	4,130,047	(3,720,456)	(4,130,047)	-	-
Change in net position	13,246,063	1,380,291	3,964,555	2,995,207	17,210,618	4,375,498
Net position:						
Beginning	(82,411,420)	(83,791,711)	9,402,321	6,407,114	(73,009,099)	(77,384,597)
Ending	\$ (69,165,357)	\$ (82,411,420)	\$ 13,366,876	\$ 9,402,321	\$ (55,798,481)	\$ (73,009,099)

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Governmental activities. Governmental activities increased the City's net position by \$13,246,063 for the year ended December 31, 2016. Key elements of this increase are as follows:

- Operating grants and contributions in governmental activities increased approximately \$2.1 million. This was due to additional pass-through Redevelopment Assistance Capital Program (RACP) grants of \$3.9 million.
- Capital grants and contributions in governmental activities increased approximately \$12.8 million. This was comprised of \$11.6 million in dedicated roads from new development within the City and \$1.4 million in improvements at the Library.
- Community development expenses in governmental activities increased approximately \$4.1 million. This was due to additional pass-through RACP grants of \$3.9 million.
- Taxes in governmental activities increased approximately \$2.2 million. The increase was due to several taxes that saw favorable movement in 2016 including a 2.2% real estate tax increase, an increase in earned income taxes due to an improving economy and growth in worker's wages, and an increase in mercantile and business privilege tax largely due to one audit that netted approximately \$372,000 to the City.

Business-type activities. Business-type activities increased the City's net position by \$3,964,555 for the year ended December 31, 2016. Key elements of this change are as follows:

- Charges for services in business-type activities increased approximately \$1.5 million. This was due to Industrial charges in the Water Fund increasing by \$400,000; while bulk sewer charges to Bethlehem Township increased by \$433,000. The City also continues to more aggressively replace older meters.
- Capital grants and contributions in business-type activities increased approximately \$300,000. The City recognized \$1.5 million in capital grants related to funds received from Lower Nazareth Township to be used towards upgrades to the sewer system.
- Sewer Fund expenses in business-type activities increased approximately \$1.0 million. This was due to additional depreciation expense related to the completion of the large biosolids dewatering project.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Financial Analysis of the Major Funds

General Fund

Revenues of the General Fund totaled \$79,791,930 for the year ended December 31, 2016. The following represents a summary of General Fund revenue, for the years ended December 31, 2016 and 2015 by source, along with changes from 2015:

	2016	2015	Change From 2015 to 2016	Percentage Change
Taxes	\$ 39,563,440	\$ 37,784,001	\$ 1,779,439	4.71%
Licenses and permits	2,652,726	2,742,617	(89,891)	-3.28%
Intergovernmental revenues	17,425,210	13,541,131	3,884,079	28.68%
Fines and forfeitures	366,782	422,018	(55,236)	-13.09%
Departmental earnings	7,588,394	6,807,918	780,476	11.46%
Other charges	1,292,787	1,208,085	84,702	7.01%
Municipal recreation	454,791	526,627	(71,836)	-13.64%
Investment income	37,076	10,085	26,991	-267.64%
Host fee	9,690,640	9,778,092	(87,452)	-0.89%
Other	720,084	731,699	(11,615)	-1.59%
Total	\$ 79,791,930	\$ 73,552,273	\$ 6,239,657	8.48%

Taxes increased by \$1,779,439 from 2015 to 2016. The increase was due to several taxes that saw favorable movement in 2016 including an \$864,875 increase in current real estate taxes largely due to a 2.2% tax increase, a \$455,073 increase in earned income taxes due to an improving economy and growth in worker's wages, and a \$432,508 increase in mercantile and business privilege tax largely due to one audit that netted approximately \$372,000 to the City.

Intergovernmental revenues increased by \$3,884,079 from 2015 to 2016. The increase was due to additional RACP funds of \$3,939,847.

Departmental earnings increased by \$780,476. The increase was due to several line items including a \$292,070 increase in Recycling due to a \$10 annual fee increase, a \$228,375 increase in the First responder's fee largely due to delinquent amounts paid in 2016, a \$163,672 increase in Ambulance fees due to some billing issues which saw a larger amount of prior year billings paid in 2016, and a \$104,506 increase in Special events overtime for police due to additional events in 2016.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

General Fund expenditures totaled \$70,349,312, which represents a increase of \$4,096,846 or 6.18% from 2015. The following represents a summary of General Fund expenditures for the years ended December 31, 2016 and 2015, by function, along with changes from 2015:

	2016	2015	Change 2015 to 2016	Percentage Change
General government	\$ 770,590	\$ 691,529	\$ 79,061	11.43%
Administrative	910,693	1,024,603	(113,910)	-11.12%
Community development	15,569,882	11,388,710	4,181,172	36.71%
Parks and public property	3,039,121	3,040,993	(1,872)	-0.06%
Public works	5,074,457	5,146,222	(71,765)	-1.39%
Police	18,463,039	18,125,675	337,364	1.86%
Fire	13,221,368	13,020,274	201,094	1.54%
General expenditures	10,926,636	11,561,212	(634,576)	-5.49%
Civic	115,161	110,138	5,023	4.56%
Library	1,315,934	1,277,082	38,852	3.04%
Debt service - principal	758,726	690,224	68,502	9.92%
Debt service - interest	183,705	175,804	7,901	4.49%
Total	\$ 70,349,312	\$ 66,252,466	\$ 4,096,846	6.18%

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

- Community development increased by \$4,181,172 due to additional RACP funds of \$3,939,847.
- Police increased by \$337,364 due to a contractual 3% wage increase and an increase in Roster duty of \$197,358 due to additional events held in the City.
- Fire increased by \$201,094 due to a contractual 3% wage increase and an increase in Overtime due to some positions being unfilled until the next training academy is offered.
- General expenditures decreased by \$634,576 due to a decrease in Medical expenses of \$542,042 and a decrease in Professional services of \$167,019. Professional services decreased as there were significant fire arbitration expenses paid in 2015.

General Fund Budgetary Highlights

The General Fund expenditure budget for fiscal year 2016 was approximately \$71.9 million. This was an increase of \$3.2 million over the previous year amended budget. There were no material amendments to the 2016 budget. Actual expenditures were approximately \$2.9 million

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

less than budgeted. General expenditures were lower than budgeted due to a favorable variance in medical claims as well as savings in insurance due to less deductibles having to be paid and less than anticipated costs in professional services. Community Development realized savings in personnel costs, contracts, and grants that were not fully spent in 2016 and carried over into 2017. Public Works realized savings in streetlighting, personnel, and contract costs.

Non-Utility Capital Improvements Fund

Cash and cash equivalents decreased by approximately \$2.0 million. This was due to having \$2.9 million less in unspent bond proceeds, as well as approximately \$1.1 million more in unspent intergovernmental and non-bond proceeds.

Capital outlays decrease by approximately \$2.7 million. This is due to the City issuing non-utility capital bonds in every odd year. The bulk of the proceeds are generally spent in the year the bond is issued and, therefore, there is a corresponding decrease in capital outlays in even years.

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 \$60,000 from 2015. Expenditures were consistent with 2015, as there was no long-term debt issued for any of the Governmental Funds in 2016.

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, 2016, the net position - restricted for employees' retirement pension benefits was \$146,898,744. The average interest rate all inclusive with costs of the pension bond is 5.5%. The Fund returned 9.26% in 2016. The Fund returned an average of 8.30% annually since its inception in 1987.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2016 amounted to \$67,920,460 and \$106,776,175 (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.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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

- The City spent \$551,430 towards 9-1-1 radio system software upgrades.
- The City spent \$427,755 towards the demolition and construction of a salt storage facility.
- The City spent \$257,459 towards the design and construction of an extension of the greenway southward to Saucon Park.
- The City spent \$257,199 towards various park and playground improvements.
- The City spent \$744,847 towards street overlays.
- The City received \$11.6 million in dedicated roads from new development within the City and \$1.4 million in improvements at the Library.

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

- The City spent \$7,366,854 on the design and installation of a new solids dewatering facility and to replace belt filter presses.
- The City spent \$1,475,264 on the demolition and installation of a new roof at primary digester 2.
- The City spent \$1,186,964 to replace water distribution mains on Carlton Avenue and Summit Street in the City and on Russell Avenue and Church Street in Fountain Hill.
- The City spent \$541,558 on the relocation of combined sewer outfall 004.

Additional information on the City's capital assets can be found at Note 4 on pages 48-53.

Long-Term Debt

As of March 2017, the City's net nonelectoral debt of \$80,188,046 is well below the net nonelectoral debt limit of \$196,910,643. Additional information on the City's long-term debt can be found at Note 7 on pages 55-66 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 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.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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, Ecopax, Vastex and Project Mustang have constructed or have projects under construction, 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 complete. 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 which opened in the fall of 2017 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 maternity and rehabilitation addition.

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 3rd 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. To accommodate new CRIZ projects, the Parking Authority has invested in a \$14 million, 626 car garage on the Southside and planning is underway for a second Southside garage of approximately 450 spaces.

Based on a decision by the Commonwealth State Supreme Court, which ruled that the section of the gaming act that set municipal and county host fees for casinos violated the state constitution Uniformity Clause, the casino host fee as it relates to slot machines expired on May 26, 2017. The State Supreme Court decision does not affect the section of the gaming act dealing with table games (approximately 9% of the 2016 Host Fee Revenue); therefore, that revenue to the City is not impacted. The State Legislature appears confident that they will amend that section of the law so that all municipalities and counties affected by the decision will remain whole. The delay in fixing the legislation relates to other sections of the gaming act that some State

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Legislators are looking to amend to address the State's budget deficit such as allowing internet gaming and/or slot machines in taverns and restaurants.

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

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

The following is a list of other major development projects:

Residential		Status as of August 2017
Bethlehem Togs/124-128 W. Union Blvd	\$ 5,500,000	Plans Submitted
Chelsea Commons/1325 Chelsea Avenue	5,000,000	Construction Completed April 2017
Evans St. 5-story Apartment Building	3,000,000	Plans Approved
Habitat for Humanity - 412 Keystone Avenue	550,000	Plans Approved
Henn - Kelchner Road Condos	2,100,000	Plans Approved
James Best - Residential (Taylor Court)	3,000,000	Plans Approved
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
Residential Subtotal	73,650,000	
Residential/Senior		
Cottages @ Monocacy Manor	4,500,000	Under Construction/Portions Complete
Turnberry Mews	10,000,000	Under Construction / Portions Complete
Residential / Senior Subtotal	14,500,000	
Institutional		
Bethlehem Manor - 815 Pennsylvania Avenue	3,000,000	Under Construction
Lehigh University Pavilion, Goodman Drive	120,000	Under Construction
Lehigh University - Crescent Building	2,000,000	Under Construction
Lehigh University - Research Building (Bldg C)	9,500,000	Under Construction/Portions Complete
Lehigh Valley Hospital-Muhlenberg South Wing	93,600,000	Under Construction/Portions Complete
Moravian Health Sciences Bldg/1107 Main St	23,000,000	Under Construction
Moravian Village Memory Care Facility/626 Stefko	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/2365 Madiso	35,500,000	Under Construction/Portions Complete
324 S. New St Parking Garage	15,100,000	Under Construction
Institutional Subtotal	271,620,000	

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

		Status as of August 2017
Mixed-Use		
Greenway Commons/422-630 E. Third Street	48,000,000	Under Construction
Negrao Personal Care Facility and Preschool	10,800,000	Under Construction/Portions Complete
Polk Street Parking Garage	16,000,000	Plans Approved
65 E. Elizabeth Building	10,000,000	Under Construction/Portions Complete
3rd & New Street Office Building (306 S. New St)	24,000,000	Under Construction
1338 E. Fourth Street	1,500,000	Plans Approved
Mixed-Use Subtotal	110,300,000	
Industrial		
LVIP VII LPT Warehouse (lots 3,4,5), 10 Emery	44,000,000	Under Construction / Portions Complete
LVIP VII Lot 13 - (2010 Spillman Drive)	9,702,000	Plans Approved
LVIP VII Lot 81 - (1025 Feather Way)	12,000,000	Plans Approved
LVIP VII Lot 84 - (1000 Maloney Circle)	15,000,000	Construction Completed 2017
Patriot Distribution (2120 Spillman Drive)	11,770,000	Plans Submitted
835 E. North Street	500,000	Plans Approved
LVIP VII (lots 6, 7) 3905 Commerce Center Blvd	39,650,000	Plans Submitted
Project Mustang, 1125 Easton Road	16,000,000	Plans Submitted
LVIP VII (Lot 53) 1355 Easton Road (Ecopax)	10,000,000	Under Construction/Portions Complete
LVIP VII (Lot 2) 7 Emery Street (Vastex)	3,800,000	Under Construction
Industrial Subtotal	162,422,000	
Commercial		
Sands Table Games Expansion	40,000,000	Plans Approved
Taco Bell - 2585 Easton Avenue	2,300,000	Construction Completed 2017
Trans Bridge Park & Ride (3150 City Line Place)	230,000	Plans Approved
404 Building (restaurants at 404 E. Third Street)	6,200,000	Plans Approved
834 Eaton Medical Office Building	10,000,000	Under Construction
1005 Harvard Ave-Medical Ofc Bldg	3,500,000	Under Construction
920 Hellertown Road (Dunkin Donuts)	1,100,000	Plans Submitted
Sterling Apts - 1620 Catasauqua Road	7,500,000	Plans Approved
Commercial Subtotal	70,830,000	
Grand Total	\$ 703,322,000	

Requests For Information

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

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF NET POSITION

DECEMBER 31, 2016

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Assets					
Current assets:					
Cash and cash equivalents	\$ 15,136,116	\$ 9,770,337	\$ 24,906,453	\$ 2,199,866	\$ 27,106,319
Investments	85,778	-	85,778	1,219	86,997
Receivables (net of allowance for uncollectibles):					
Taxes	3,782,084	-	3,782,084	-	3,782,084
Accounts	875,485	9,438,772	10,314,257	411,722	10,725,979
Pledges	-	-	-	8,500	8,500
Other	1,530,854	-	1,530,854	51,837	1,582,691
Accrued interest	-	8,042	8,042	-	8,042
Due from other governments	5,775,318	-	5,775,318	-	5,775,318
Internal balances	587,527	(587,527)	-	-	-
Inventories	-	302,313	302,313	-	302,313
Prepaid expenses	-	-	-	188,742	188,742
Total current assets	27,773,162	18,931,937	46,705,099	2,861,886	49,566,985
Noncurrent assets:					
Loans receivable	1,377,225	-	1,377,225	-	1,377,225
Restricted cash and cash equivalents	-	9,642,511	9,642,511	153	9,642,664
Restricted investments	-	5,243,901	5,243,901	20,419,498	25,663,399
Capital assets, not being depreciated	8,079,597	4,872,678	12,952,275	8,399,934	21,352,209
Capital assets, net	59,840,863	101,903,497	161,744,360	43,872,210	205,616,570
Net pension asset	1,473,379	759,014	2,232,393	-	2,232,393
Other assets	1,237,317	263,815	1,501,132	-	1,501,132
Total noncurrent assets	72,008,381	122,685,416	194,693,797	72,691,795	267,385,592
Total Assets	99,781,543	141,617,353	241,398,896	75,553,681	316,952,577
Deferred Outflows of Resources					
Deferred outflows of resources - pensions	15,140,388	3,388,640	18,529,028	396,269	18,925,297
Deferred charge on refunding	257,759	23,853	281,612	521,359	802,971
Total Deferred Outflows of Resources	15,398,147	3,412,493	18,810,640	917,628	19,728,268

(Continued)

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

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Liabilities					
Current liabilities:					
Accounts payable and other accrued expenses	1,312,735	2,972,182	4,284,917	2,390,430	6,675,347
Accrued payroll	886,215	164,918	1,051,133	52,268	1,103,401
Accrued vacation and other compensated absences	857,175	644,402	1,501,577	120,790	1,622,367
Termination benefits payable	219,351	-	219,351	-	219,351
Interest payable	826,639	398,438	1,225,077	266,937	1,492,014
Current portion of long-term debt	5,389,000	7,532,013	12,921,013	5,661,888	18,582,901
Current portion of capital lease obligations	962,131	131,935	1,094,066	89,871	1,183,937
Due to Agency Fund	1,605,459	7	1,605,466	-	1,605,466
Unearned revenue	4,448,565	-	4,448,565	181,783	4,630,348
Total current liabilities	16,507,270	11,843,895	28,351,165	8,763,967	37,115,132
Noncurrent liabilities:					
Accrued vacation and other compensated absences, net of current portion	3,474,237	-	3,474,237	-	3,474,237
Accrued sick pay	-	157,190	157,190	-	157,190
Long-term debt, net of current portion	104,540,274	112,544,077	217,084,351	48,858,965	265,943,316
Capital lease obligation, net of current portion	4,900,066	122,880	5,022,946	129,663	5,152,609
Net pension liability	50,199,300	4,712,011	54,911,311	272,689	55,184,000
Other post-employment benefit liability	4,723,900	998,257	5,722,157	-	5,722,157
Unearned revenue	-	1,026,950	1,026,950	187,617	1,214,567
Total noncurrent liabilities	167,837,777	119,561,365	287,399,142	49,448,934	336,848,076
Total Liabilities	184,345,047	131,405,260	315,750,307	58,212,901	373,963,208
Deferred Inflows of Resources					
Deferred charge on refunding	-	257,710	257,710	-	257,710
Total Deferred Inflows of Resources	-	257,710	257,710	-	257,710
Net Position					
Net investment in capital assets	29,956,714	(735,343)	29,221,371	13,556,763	42,778,134
Restricted	4,771,714	759,014	5,530,728	1,901,495	7,432,223
Unrestricted	(103,893,785)	13,343,205	(90,550,580)	2,800,150	(87,750,430)
Total Net Position	\$ (69,165,357)	\$ 13,366,876	\$ (55,798,481)	\$ 18,258,408	\$ (37,540,073)

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

<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	\$ 843,944	\$ -	\$ -	\$ 69,000
Administrative	1,024,640	204,954	-	-
Community development	15,767,685	4,077,732	12,274,926	-
Parks and public property	5,580,568	621,426	23,983	314,742
Public works	10,152,649	1,457,598	2,243,664	11,600,645
Police	23,321,538	1,953,284	2,937,454	-
Fire	14,262,715	3,736,536	13,790	-
General expenditures	10,813,789	-	-	-
Civic	115,161	-	-	-
Library	1,479,664	-	-	1,489,144
Program expenditures	2,003,666	-	2,168,861	-
Interest on long-term debt	5,422,707	-	-	-
Total governmental activities	90,788,726	12,051,530	19,662,678	13,473,531
Business-type activities:				
Water Fund	19,871,288	22,020,773	-	-
Sewer Fund	12,620,382	15,815,109	-	1,515,364
Other non-major fund	1,377,431	1,363,088	-	-
Total business-type activities	33,869,101	39,198,970	-	1,515,364
Total primary government	\$ 124,657,827	\$ 51,250,500	\$ 19,662,678	\$ 14,988,895
<u>Component units:</u>				
Bethlehem Parking Authority	\$ 5,391,222	\$ 5,522,993	\$ -	\$ -
Bethlehem Public Library	4,444,043	209,050	2,726,239	-
Bethlehem Redevelopment Authority	7,510,754	-	22,527	12,391,253
Total component units	\$ 17,346,019	\$ 5,732,043	\$ 2,748,766	\$ 12,391,253

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

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		
\$ (774,944)	\$ -	\$ (774,944)	\$ -	\$ (774,944)
(819,686)	-	(819,686)	-	(819,686)
584,973	-	584,973	-	584,973
(4,620,417)	-	(4,620,417)	-	(4,620,417)
5,149,258	-	5,149,258	-	5,149,258
(18,430,800)	-	(18,430,800)	-	(18,430,800)
(10,512,389)	-	(10,512,389)	-	(10,512,389)
(10,813,789)	-	(10,813,789)	-	(10,813,789)
(115,161)	-	(115,161)	-	(115,161)
9,480	-	9,480	-	9,480
165,195	-	165,195	-	165,195
(5,422,707)	-	(5,422,707)	-	(5,422,707)
<u>(45,600,987)</u>	<u>-</u>	<u>(45,600,987)</u>	<u>-</u>	<u>(45,600,987)</u>
-	2,149,485	2,149,485	-	2,149,485
-	4,710,091	4,710,091	-	4,710,091
-	(14,343)	(14,343)	-	(14,343)
<u>-</u>	<u>6,845,233</u>	<u>6,845,233</u>	<u>-</u>	<u>6,845,233</u>
<u>(45,600,987)</u>	<u>6,845,233</u>	<u>(38,755,754)</u>	<u>-</u>	<u>(38,755,754)</u>
-	-	-	131,771	131,771
-	-	-	(1,508,754)	(1,508,754)
-	-	-	4,903,026	4,903,026
<u>-</u>	<u>-</u>	<u>-</u>	<u>3,526,043</u>	<u>3,526,043</u>
39,806,223	-	39,806,223	-	39,806,223
15,251,510	-	15,251,510	-	15,251,510
68,861	839,778	908,639	285,885	1,194,524
3,720,456	(3,720,456)	-	-	-
<u>58,847,050</u>	<u>(2,880,678)</u>	<u>55,966,372</u>	<u>285,885</u>	<u>56,252,257</u>
13,246,063	3,964,555	17,210,618	3,811,928	21,022,546
<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>
<u>\$ (69,165,357)</u>	<u>\$ 13,366,876</u>	<u>\$ (55,798,481)</u>	<u>\$ 18,258,408</u>	<u>\$ (37,540,073)</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2016

	General Fund	Non-Utility Capital Improvements Fund	Debt Service Fund	Other Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 7,818,758	\$ 3,252,922	\$ -	\$ 4,001,796	\$ 15,073,476
Investments	-	85,778	-	-	85,778
Receivables:					
Taxes	3,782,084	-	-	-	3,782,084
Accounts	875,485	-	-	-	875,485
Loans	-	-	-	1,377,225	1,377,225
Other	914,470	10,704	-	605,680	1,530,854
Due from other funds	629,604	23,500	-	-	653,104
Due from other governments	5,652,102	8,611	-	114,605	5,775,318
Total Assets	\$ 19,672,503	\$ 3,381,515	\$ -	\$ 6,099,306	\$ 29,153,324
Liabilities, Deferred Inflows of Resources, and Fund Balance					
Liabilities:					
Accounts payable and other accrued expenses	\$ 715,166	\$ 386,839	\$ -	\$ 210,710	\$ 1,312,715
Accrued payroll	859,242	-	-	26,973	886,215
Accrued vacation and other compensated absences	833,133	-	-	24,042	857,175
Escrow liabilities	20	-	-	-	20
Due to other funds	1,605,466	65,570	-	-	1,671,036
Unearned revenues	300,091	609,741	-	3,538,733	4,448,565
Total Liabilities	4,313,118	1,062,150	-	3,800,458	9,175,726
Deferred Inflows of Resources:					
Unavailable revenue - taxes	1,861,594	-	-	-	1,861,594
Fund Balance:					
Restricted for:					
Parks and public property	430,077	-	-	-	430,077
Community development	230,739	-	-	-	230,739
Debt service	48,772	-	-	-	48,772
Capital projects	-	2,319,365	-	-	2,319,365
Public works	-	-	-	398,574	398,574
Police	236,650	-	-	1,900,274	2,136,924
Library	53,249	-	-	-	53,249
Unassigned	12,498,304	-	-	-	12,498,304
Total Fund Balance	13,497,791	2,319,365	-	2,298,848	18,116,004
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 19,672,503	\$ 3,381,515	\$ -	\$ 6,099,306	\$ 29,153,324

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, 2016

Total Fund Balance - Governmental Funds \$ 18,116,004

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. 67,920,460

Net pension asset and deferred outflows related to pensions 16,613,767

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. 1,861,594

Accrued vacation and other compensated absences not due within the next twelve months are recorded on the statement of net position. (3,474,237)

Termination benefits are not due and payable in the current period and, therefore, are not reported in the funds. (219,351)

Net pension liability (50,199,300)

Other post-employment benefit liability is recorded on the statement of net position. (4,723,900)

Prepaid bond insurance and charge on refunding are amortized on the statement of net position. 1,495,076

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 (109,929,274)

Capital leases (5,862,197)

Accrued interest payable is included on the statement of net position. (826,639)

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.

62,640

Net Position - Governmental Activities \$ (69,165,357)

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, 2016

	General Fund	Non-Utility Capital Improvements Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 39,563,440	\$ -	\$ -	\$ -	\$ 39,563,440
Licenses and permits	2,652,726	-	-	-	2,652,726
Intergovernmental revenues	17,425,210	589,836	-	6,348,104	24,363,150
Fines and forfeitures	366,782	-	-	-	366,782
Departmental earnings	7,588,394	-	-	-	7,588,394
Other charges	1,292,787	-	-	-	1,292,787
Municipal recreation	454,791	-	-	-	454,791
Investment income	37,076	10,506	-	21,279	68,861
Host fee	9,690,640	-	-	-	9,690,640
Other	720,084	106,954	-	216,916	1,043,954
Total revenues	79,791,930	707,296	-	6,586,299	87,085,525
Expenditures:					
Current:					
General government	770,590	-	-	-	770,590
Administrative	910,693	-	-	-	910,693
Community development	15,569,882	-	-	-	15,569,882
Parks and public property	3,039,121	-	-	-	3,039,121
Public works	5,074,457	-	-	1,945,540	7,019,997
Police	18,463,039	-	-	2,478,075	20,941,114
Fire	13,221,368	-	-	-	13,221,368
General expenditures	10,926,636	-	-	-	10,926,636
Civic	115,161	-	-	-	115,161
Library	1,315,934	-	-	-	1,315,934
Program expenditures	-	-	-	2,127,643	2,127,643
Capital outlays	-	3,245,339	-	-	3,245,339
Debt service - principal	758,726	181,568	4,170,000	-	5,110,294
Debt service - interest	183,705	18,158	5,105,728	-	5,307,591
Total expenditures	70,349,312	3,445,065	9,275,728	6,551,258	89,621,363
Excess (Deficiency) of Revenues Over Expenditures	9,442,618	(2,737,769)	(9,275,728)	35,041	(2,535,838)
Other Financing Sources (Uses):					
Transfers in	2,260,345	840,478	9,275,728	1,093,050	13,469,601
Transfers out	(8,838,027)	-	-	(911,118)	(9,749,145)
Capital lease	329,225	-	-	-	329,225
Total other financing sources (uses)	(6,248,457)	840,478	9,275,728	181,932	4,049,681
Net Change in Fund Balance	3,194,161	(1,897,291)	-	216,973	1,513,843
Fund Balance:					
Beginning of the year	10,303,630	4,216,656	-	2,081,875	16,602,161
End of the year	\$ 13,497,791	\$ 2,319,365	\$ -	\$ 2,298,848	\$ 18,116,004

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, 2016

Net Change in Fund Balance - Governmental Funds \$ 1,513,843

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$5,138,053) and donated capital assets (\$13,089,789) were greater than depreciation (\$8,479,119) and loss on disposal (\$16,180) in the current period. 9,732,543

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. 139,019

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

 Issuance of capital lease (329,225)

 Repayment of principal 5,110,294

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. 29,090

Change in net pension asset and deferred outflows of resources related to pensions in the statement of activities. 1,528,776

Change in termination benefits in the statement of activities. (134,276)

Change in accrued vacation and other compensated absences not due within the next twelve months in the statement of activities. (119,489)

Change in net pension liability in the statement of activities. (3,746,357)

Change in other post-employment benefit liability in the statement of activities. (446,796)

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. (144,206)

Activities of the internal service fund are reported as net gain within the statement of activities. 112,847

Change in Net Position - Governmental Activities \$ 13,246,063

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - PROPRIETARY FUNDS

DECEMBER 31, 2016

Assets and Deferred Outflows of Resources	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Assets:					
Current assets:					
Cash and cash equivalents	\$ 5,197,752	\$ 4,549,749	\$ 22,836	\$ 9,770,337	\$ 62,640
Accounts receivable, net	4,520,220	4,918,552	-	9,438,772	-
Accrued interest	8,042	-	-	8,042	-
Due from other funds	-	55,000	10,570	65,570	-
Inventories	211,095	70,229	20,989	302,313	-
Total current assets	9,937,109	9,593,530	54,395	19,585,034	62,640
Restricted assets:					
Cash and cash equivalents	9,642,511	-	-	9,642,511	-
Investments	5,243,901	-	-	5,243,901	-
Capital assets, not being depreciated	1,817,030	2,880,648	175,000	4,872,678	-
Capital assets, net	73,403,656	28,157,108	342,733	101,903,497	-
Net pension asset	312,535	357,183	89,296	759,014	-
Other assets	205,229	57,128	1,458	263,815	-
Total Assets	100,561,971	41,045,597	662,882	142,270,450	62,640
Deferred Outflows of Resources:					
Deferred outflows of resources - pensions	1,398,819	1,599,325	390,496	3,388,640	-
Deferred charge on refunding	-	23,853	-	23,853	-
Total Deferred Outflows of Resources	1,398,819	1,623,178	390,496	3,412,493	-
Total Assets and Deferred Outflows of Resources	\$ 101,960,790	\$ 42,668,775	\$ 1,053,378	\$ 145,682,943	\$ 62,640

(Continued)

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund	Total	Internal Service
			Municipal Golf Fund		
Liabilities, Deferred Inflows of Resources, and Net Position					
Liabilities:					
Current liabilities:					
Accounts payable and other accrued expenses	\$ 367,325	\$ 417,961	\$ 91,371	\$ 876,657	\$ -
Accrued payroll	88,277	68,094	8,547	164,918	-
Accrued vacation and other compensated absences	323,365	277,942	43,095	644,402	-
Construction accounts payable	406,549	1,688,976	-	2,095,525	-
Interest payable	334,512	63,926	-	398,438	-
Current portion of long-term debt	5,965,995	1,566,018	-	7,532,013	-
Current portion of capital lease obligation	36,057	26,234	69,644	131,935	-
Due to other funds	-	-	653,104	653,104	-
Total current liabilities	7,522,080	4,109,151	865,761	12,496,992	-
Accrued sick pay	102,206	43,112	11,872	157,190	-
Long-term debt, net	89,710,423	22,833,654	-	112,544,077	-
Capital lease obligation, net	52,960	-	69,920	122,880	-
Net pension liability	1,940,240	2,217,417	554,354	4,712,011	-
Other post-employment benefits liability	604,579	329,471	64,207	998,257	-
Unearned revenue	-	1,026,950	-	1,026,950	-
Total Liabilities	99,932,488	30,559,755	1,566,114	132,058,357	-
Deferred Inflows of Resources:					
Deferred charge on refunding	257,710	-	-	257,710	-
Net Position:					
Net investment in capital assets	(6,117,367)	5,003,855	378,169	(735,343)	-
Restricted	312,535	357,183	89,296	759,014	-
Unrestricted	7,575,424	6,747,982	(980,201)	13,343,205	62,640
Total Net Position	1,770,592	12,109,020	(512,736)	13,366,876	62,640
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 101,960,790	\$ 42,668,775	\$ 1,053,378	\$ 145,682,943	\$ 62,640

(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, 2016

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other Enterprise Fund		
			Municipal Golf Fund	Total	
Operating Revenues:					
Charges for services	\$ 21,575,062	\$ 14,721,019	\$ 1,352,527	\$ 37,648,608	\$ 11,785,077
Operating Expenses:					
Salaries, wages, and fringe benefits	4,300,016	3,998,010	688,049	8,986,075	-
Professional fees	765,698	159,829	2,690	928,217	-
Utilities	251,833	638,614	33,118	923,565	-
Maintenance and repairs	106,439	186,845	40,874	334,158	-
Department contracts	384,521	1,218,894	13,557	1,616,972	-
Supplies	342,819	841,260	126,876	1,310,955	-
Service charges	3,040,983	2,416,677	256,517	5,714,177	-
Depreciation and amortization	5,468,111	2,580,797	169,201	8,218,109	-
Insurance claims	-	-	-	-	11,795,312
Administration	-	-	-	-	16,992
Bad debt expense	199,550	-	-	199,550	-
Other	452,085	264,377	37,257	753,719	-
Total operating expenses	15,312,055	12,305,303	1,368,139	28,985,497	11,812,304
Operating Income (Loss)	6,263,007	2,415,716	(15,612)	8,663,111	(27,227)
Non-Operating Revenues (Expenses):					
Investment income	824,085	15,693	-	839,778	119
Interest expense	(4,559,233)	(315,079)	(9,292)	(4,883,604)	-
Tapping fees	-	243,201	-	243,201	-
Other revenues	445,711	2,366,253	10,561	2,822,525	139,955
Total non-operating revenues (expenses)	(3,289,437)	2,310,068	1,269	(978,100)	140,074
Change in net position before transfers	2,973,570	4,725,784	(14,343)	7,685,011	112,847
Transfers in	-	-	7,900	7,900	-
Transfers out	(758,564)	(2,849,612)	(120,180)	(3,728,356)	-
Change in Net Position	2,215,006	1,876,172	(126,623)	3,964,555	112,847
Net Position:					
Beginning of year	(444,414)	10,232,848	(386,113)	9,402,321	(50,207)
End of year	\$ 1,770,592	\$ 12,109,020	\$ (512,736)	\$ 13,366,876	\$ 62,640

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, 2016

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other Enterprise Fund		
			Municipal Golf Fund	Total	
Cash Flows From Operating Activities:					
Receipts from customers	\$ 21,397,640	\$ 14,271,512	\$ 1,354,047	\$ 37,023,199	\$ 11,785,077
Payments to suppliers for services	(5,483,825)	(5,688,687)	(453,200)	(11,625,712)	(11,872,161)
Payment to employees	(4,016,450)	(3,656,820)	(610,451)	(8,283,721)	-
Net cash provided by (used in) operating activities	<u>11,897,365</u>	<u>4,926,005</u>	<u>290,396</u>	<u>17,113,766</u>	<u>(87,084)</u>
Cash Flows From Noncapital Financing Activities:					
Transfers out	(758,564)	(2,849,612)	(120,180)	(3,728,356)	-
Other revenues received	445,711	850,889	10,561	1,307,161	139,955
Net cash provided by (used in) noncapital financing activities	<u>(312,853)</u>	<u>(1,998,723)</u>	<u>(109,619)</u>	<u>(2,421,195)</u>	<u>139,955</u>
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(2,661,688)	(9,996,815)	-	(12,658,503)	-
Principal payments on debt	(5,746,224)	(1,429,648)	(71,000)	(7,246,872)	-
Interest payments on debt	(3,360,904)	(378,633)	(10,464)	(3,750,001)	-
Principal payments on capital lease obligations	(45,524)	(25,332)	(96,921)	(167,777)	-
Tapping fees	-	243,201	-	243,201	-
Capital grant	-	1,250,000	-	1,250,000	-
Proceeds from issuance of debt	-	6,352,939	-	6,352,939	-
Net cash used in capital and related financing activities	<u>(11,814,340)</u>	<u>(3,984,288)</u>	<u>(178,385)</u>	<u>(15,977,013)</u>	<u>-</u>
Cash Flows From Investing Activities:					
Net sale of investments	10,363,463	-	-	10,363,463	-
Interest and dividends on investments	824,085	15,693	-	839,778	119
Net cash provided by investing activities	<u>11,187,548</u>	<u>15,693</u>	<u>-</u>	<u>11,203,241</u>	<u>119</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>10,957,720</u>	<u>(1,041,313)</u>	<u>2,392</u>	<u>9,918,799</u>	<u>52,990</u>
Cash and Cash Equivalents:					
Beginning of year	3,882,543	5,591,062	20,444	9,494,049	9,650
End of year	<u>\$ 14,840,263</u>	<u>\$ 4,549,749</u>	<u>\$ 22,836</u>	<u>\$ 19,412,848</u>	<u>\$ 62,640</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, 2016

(Continued)

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating income (loss)	\$ 6,263,007	\$ 2,415,716	\$ (15,612)	\$ 8,663,111	\$ (27,227)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	5,468,111	2,580,797	169,201	8,218,109	-
Amortization	318,657	364,178	91,044	773,879	-
Changes in assets and liabilities:					
Accounts receivable	(177,422)	(449,507)	-	(626,929)	-
Inventories	(21,000)	11,150	7,465	(2,385)	-
Net pension asset	(9,449)	(13,685)	(8,473)	(31,607)	-
Other assets	-	-	1,520	1,520	-
Deferred outflows of resources - pensions	(1,303,725)	(1,489,971)	(372,492)	(3,166,188)	-
Accrued vacation and other compensated absences	7,554	23,902	(12,978)	18,478	-
Accrued payroll	(123,494)	(111,598)	(19,790)	(254,882)	-
Accounts payable and other accrued expenses	81,103	26,659	6,807	114,569	(59,857)
Due to other funds	-	-	43,417	43,417	-
Net pension liability	1,342,336	1,539,792	394,913	3,277,041	-
Other post-employment benefits liability	51,687	28,572	5,374	85,633	-
Net cash provided by (used in) operating activities	\$ 11,897,365	\$ 4,926,005	\$ 290,396	\$ 17,113,766	\$ (87,084)
Non-cash Capital and Related Financing Activities:					
Accretion of capital appreciation bonds	\$ 1,781,205	\$ -	\$ -	\$ 1,781,205	\$ -
Issuance of capital lease	\$ 95,205	\$ -	\$ -	\$ 95,205	\$ -

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2016

	Employee Benefit Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 5,058,012	\$ 1,679,221
Interest and dividends receivable	356,784	-
Due from the City	-	1,605,466
Investments	141,483,948	-
Total Assets	146,898,744	3,284,687
Liabilities		
Escrow liabilities	-	3,284,687
Total Liabilities	-	\$ 3,284,687
Net Position		
Restricted for employees' retirement benefits	146,898,744	
Total Net Position	\$ 146,898,744	

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, 2016

	<u>Employee Benefit Trust Fund</u>
Additions:	
<hr/>	
Contributions:	
Employee contributions	\$ 1,490,857
Employer contributions	6,981,329
Total contributions	<u>8,472,186</u>
Investment earnings:	
Investment income	2,349,655
Realized and unrealized gains, net	9,655,089
Total investment earnings	12,004,744
Less investment expense	<u>(522,863)</u>
Net investment earnings	<u>11,481,881</u>
Total additions	<u>19,954,067</u>
Deductions:	
<hr/>	
Benefits paid	11,481,220
Administrative costs	62,202
Total deductions	<u>11,543,422</u>
Change in Net Position	8,410,645
Net Position:	
<hr/>	
Beginning of year	<u>138,488,099</u>
End of year	<u><u>\$ 146,898,744</u></u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2016

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority *	Total
Assets and Deferred Outflows of Resources				
Assets:				
Current assets:				
Cash and cash equivalents	\$ 1,829,727	\$ 36,568	\$ 333,571	\$ 2,199,866
Investments	1,219	-	-	1,219
Accounts receivable, net	411,722	-	-	411,722
Pledges receivable	-	8,500	-	8,500
Other receivables	9,986	-	41,851	51,837
Prepaid expenses	188,742	-	-	188,742
Total current assets	2,441,396	45,068	375,422	2,861,886
Restricted cash and cash equivalents	-	-	153	153
Restricted investments	9,280,805	1,894,664	9,244,029	20,419,498
Capital assets, not being depreciated	7,473,094	5,000	921,840	8,399,934
Capital assets, net	13,367,913	357,290	30,147,007	43,872,210
Total Assets	32,563,208	2,302,022	40,688,451	75,553,681
Deferred Outflows of Resources:				
Deferred outflows of resources - pension	332,661	-	63,608	396,269
Deferred charge on refunding	521,359	-	-	521,359
Total Deferred Outflows of Resources	854,020	-	63,608	917,628
Total Assets and Deferred Outflows of Resources	\$33,417,228	\$ 2,302,022	\$40,752,059	\$76,471,309

(Continued)

* - As of June 30, 2016

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
Liabilities and Net Position				
Liabilities:				
Accounts payable and other accrued expenses	\$ 2,207,313	\$ 13,279	\$ 169,838	\$ 2,390,430
Accrued payroll	23,107	29,161	-	52,268
Accrued vacation and other compensated absences	105,227	15,563	-	120,790
Interest payable	187,661	-	79,276	266,937
Current portion of long-term debt	806,888	-	4,855,000	5,661,888
Current portion of capital lease obligation	89,871	-	-	89,871
Unearned revenue	181,783	-	-	181,783
Total current liabilities	3,601,850	58,003	5,104,114	8,763,967
Long-term debt, net of current portion	23,873,965	-	24,985,000	48,858,965
Capital lease obligation, net of current portion	129,663	-	-	129,663
Unearned revenue	187,617	-	-	187,617
Net pension liability	96,931	-	175,758	272,689
Total Liabilities	27,890,026	58,003	30,264,872	58,212,901
Net Position:				
Net investment in capital assets	3,266,282	362,290	9,928,191	13,556,763
Restricted	-	1,901,495	-	1,901,495
Unrestricted	2,260,920	(19,766)	558,996	2,800,150
Total Net Position	5,527,202	2,244,019	10,487,187	18,258,408
Total Liabilities and Net Position	\$33,417,228	\$ 2,302,022	\$40,752,059	\$76,471,309

(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, 2016

	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	\$ 5,391,222	\$ 5,522,993	\$ -	\$ -	\$ 131,771	\$ -	\$ -	\$ 131,771
Bethlehem Public Library	4,444,043	209,050	2,726,239	-	-	(1,508,754)	-	(1,508,754)
Bethlehem Redevelopment Authority *	7,510,754	-	22,527	12,391,253	-	-	4,903,026	4,903,026
Total Component Units	\$ 17,346,019	\$ 5,732,043	\$ 2,748,766	\$ 12,391,253	131,771	(1,508,754)	4,903,026	3,526,043
General Revenues:								
					237	282,679	2,969	285,885
					237	282,679	2,969	285,885
					132,008	(1,226,075)	4,905,995	3,811,928
					5,395,194	3,470,094	5,581,192	14,446,480
					\$ 5,527,202	\$ 2,244,019	\$ 10,487,187	\$ 18,258,408

* - Year ended June 30, 2016

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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

Cash, Cash Equivalents, and Investments

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

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

Internal Balances

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

Receivables

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

Property Taxes

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

CITY OF BETHLEHEM, PENNSYLVANIA

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The schedule for property taxes levied for 2016 is as follows:

January 1, 2016	original levy date
January 1, 2016 - March 31, 2016	2% discount period
April 1, 2016 - May 31, 2016	face payment period
June 1, 2016 - December 30, 2016	10% penalty period

In addition, City taxes may be paid in four installments due approximately February 8, April 4, June 6, and August 1 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 2016 millage was 8.61 for general purposes, 1.70 for public safety, 0.93 for 911, 0.86 for recreation, 3.67 for debt service, 0.55 for landfill debt, and 0.83 for library, for properties in Northampton County; and 2.73 for general purposes, 0.54 for public safety, 0.29 for 911, 0.27 for recreation, 1.16 for debt service, 0.17 for landfill debt, and 0.26 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 purchased rather than when consumed.

Interfund Transactions

As a result of its operations, the City affects a variety of transactions between funds to finance operations. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2016, appropriate interfund receivables or payables have been established.

Capital Assets

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

CITY OF BETHLEHEM, PENNSYLVANIA

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

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

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

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

Redevelopment Authority

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

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

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

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Restricted Investments

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

Bond Discounts, Bond Premiums, and Prepaid Bond Insurance

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

Compensated Absences

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

Termination Benefits

During the years ended December 31, 2014 and 2016, employees who were age 55 and over and had five or more years with the City were given the option of either a \$10,000 payment or medical benefits for two years at the going rate for active employees in their class of employment if they chose to retire. During the year ended December 31, 2014, 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 ran from January 2015 through December 2016. During the year ended December 31, 2016, sixteen employees participated in the early retirement incentive. For those employees who elected the \$10,000 payment, the payment was made in January 2017. For those who elected two years of medical coverage, the coverage ran from January 2017 through December 2018.

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

Unearned Revenues

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

Deferred Inflows and Outflows of Resources Related to Pensions

In conjunction with pension accounting requirements, the differences in the expected and actual experience, contributions subsequent to the measurement date, the changes in assumptions, and the difference between projected and actual earnings on pension 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.

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

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

Fund Balance

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

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

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

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

Use of Estimates

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

Adoption of Governmental Accounting Standards Board (GASB) Statements

The City has adopted GASB Statement No. 72, "*Fair Value Measurement and Application*," and GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*." These Statements address accounting and financial reporting issues related to fair value measurements and certain investment pools and pool participants. As a result of implementation of these Statements, the deposit and investment disclosures at Note 3 have been enhanced.

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Pending Changes in Accounting Principles

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 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.

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

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

In March of 2017, the GASB issued Statement No. 85, *“Omnibus 2017.”* This Statement addresses practice issues identified during implementation and application of certain GASB Statements related to a variety of topics, including blending component units, goodwill, fair

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value measurement and application, and post-employment benefits. The provisions of GASB Statement No. 85 are effective for the City's December 31, 2018 financial statements.

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

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

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

2. REPORTING ENTITY

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

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

Bethlehem Authority

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

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

Bethlehem Parking Authority

The Bethlehem Parking Authority (Parking Authority) acquires, constructs, and equips parking facilities in the City. The Parking Authority is governed by five board members, all appointed by the Mayor and approved by City Council. Also, the City may require the Parking Authority to transfer surpluses to the City. During the year ended December 31, 2016, the Parking Authority made contributions to the City's General Fund of \$550,000. Separate financial statements were issued by the Parking Authority and can be obtained by contacting the Parking Authority.

Bethlehem Area Public Library

The Bethlehem Area Public Library (Library) provides library services to the City and nearby communities. The Library is governed by eleven directors, seven of whom are appointed by City Council on the recommendation of the President of City Council. The remaining members are appointed by the governing boards of the municipalities of Fountain Hill, Hanover Township (Northampton County), and Bethlehem Township. The City supports the Library. The City's 2016 appropriation to the Library was \$1,315,934, which represented 41% of the Library's General Fund revenue. Title to the assets of the Library rests with the City directly or indirectly through the Board of Directors. The Library's main facility occupies, without charge, premises located in a building owned by the City. During the year ended December 31, 2016, the Library paid the City \$116,760 for utility and insurance costs. Separate financial statements were issued by the Library and can be obtained by contacting the Library.

Bethlehem Redevelopment Authority

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

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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 \$400,000 in public safety reimbursements and \$66,000 in lieu of taxes to the City during the year ended December 31, 2016.

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, 2016, BEDCO owes the City \$794,875. There were no payments made on this loan during the year ended December 31, 2016. 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.

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NOTES TO FINANCIAL STATEMENTS

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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 the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured, however, for any amounts above the insured maximum, such certificates of deposit shall be collateralized by a pledge or assignment of assets of the institution, and such collateral may include loans (including interest in pools of loans) secured by first mortgage liens on real property. Certificates of deposit purchased from commercial banks shall be limited to an amount equal to twenty percent of a

CITY OF BETHLEHEM, PENNSYLVANIA

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bank's total capital and surplus. Certificates of deposit purchased from savings and loan associations or savings banks shall be limited to an amount equal to twenty percent of an institution's assets minus liabilities.

- g. Short-term commercial paper issued by a public corporation.
- h. Banker's acceptances.
- i. Any investment authorized by 20 Pa. C.S. Ch. 73 (relating to fiduciaries' investments) shall be an authorized investment for any pension or retirement fund.

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

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

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, 2016, the City's book balance was \$41,286,197 and the bank balance was \$42,176,240. Of the bank balance, \$5,764,549 was covered by federal depository insurance and \$36,411,691 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

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Reconciliation to total cash and cash equivalents:	
<u>Governmental activities:</u>	
Unrestricted	\$ 15,136,116
Business-type activities:	
Unrestricted	9,770,337
Restricted	9,642,511
Fiduciary funds:	
Employee benefit trust fund	5,058,012
Agency fund	<u>1,679,221</u>
Total cash and cash equivalents	<u>\$ 41,286,197</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

B. Investments

The fair value of the investments of the City at December 31, 2016 was as follows:

Investments:	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Money market funds	\$ 5,279,312	\$ 5,279,312	\$ -	\$ -
U.S. Government obligations	16,985,109	16,985,109	-	-
U.S. Government agency obligations	4,689,724	4,689,724	-	-
Municipal bonds	272,356	-	272,356	-
Corporate bonds and notes	15,995,186	-	15,995,186	-
Equity mutual funds:				
Domestic	11,599,676	11,599,676	-	-
International	20,490,417	20,490,417	-	-
Equities:				
Information technology	9,440,977	9,440,977	-	-
Financials	9,044,385	9,044,385	-	-
Consumer staples	5,415,305	5,415,305	-	-
Industrials	8,076,789	8,076,789	-	-
Consumer discretionary	5,867,118	5,867,118	-	-
Health care	5,676,432	5,676,432	-	-
Energy	2,211,388	2,211,388	-	-
Materials	841,612	841,612	-	-
Other	4,535,094	4,535,094	-	-
Limited partnerships	10,509,384	-	-	10,509,384
Real estate equity fund	7,268,679	-	-	7,268,679
Total investments by fair value level	144,198,943	<u>\$ 110,153,338</u>	<u>\$ 16,267,542</u>	<u>\$ 17,778,063</u>
Investments measured at net asset value:				
External investment pools	394,576			
Real estate investment trusts	2,220,108			
Total investments measured at fair value	<u>\$ 146,813,627</u>			

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

<u>Reconciliation to total investments</u>	
Governmental activities:	
Unrestricted	\$ 85,778
Business-type activities:	
Restricted	5,243,901
Fiduciary funds:	
Employee Benefit Trust Fund	<u>141,483,948</u>
Total investments	<u>\$ 146,813,627</u>

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

Limited partnerships

At December 31, 2016, the City's Employee Benefit Trust Fund was invested in CCA Green, LP, a limited partnership, in the amount of \$2,124,537. 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's business activity is to invest funds of the partnership with the principal objective of achieving appreciation of the capital invested. 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. The City has the right, upon 120 days' prior written notice, to withdraw any portion of its capital account, calculated and valued at net asset value of the partnership, on the last business day of the fiscal quarter subject to limitations described in the partnership agreement. However, no withdrawal shall be permitted in the first 12 months following a capital contribution. If permitted to withdraw prior to the 12-month holding period, a 5% charge may be assessed.

At December 31, 2016, the City's Employee Benefit Trust Fund was invested in Hamilton Lane Co-Investment Fund III, LP, a limited partnership, in the amount of \$2,951,397. The partnership is a feeder fund in a master-feeder structure whereby the partnership invests all of

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

At December 31, 2016, the City's Employee Benefit Trust Fund was invested in NB Crossroads Fund XX – Asset Allocation LP, a limited partnership, in the amount of \$5,433,450. The partnership was formed for the purpose of acquiring, holding, selling, and exchanging, either directly or indirectly, interest in limited partnerships or other pooled investment vehicles that are organized to make investments in large-cap buyout, mid-cap buyout, special situations, and venture/growth capital investment funds, as well as securities, including co-investments. The partnership is one of the constituent funds of NB Crossroads Fund XX and invests substantially all of its assets in NBFOF XX – Holdings LP; which in turn invests substantially all of its assets in the NB Master Holding Funds, a group of closed-ended investment partnerships that are formed as series limited partnerships. The general partner estimates fair value for private interests based on a methodology that begins with the most recent information available from the general partner of the investee partnerships or the lead investor of a direct co-investment, and considers subsequent transactions, such as drawdowns or distributions, as well as other information judged to be reliable that reports or indicates valuation changes, including realizations and other portfolio company events. All investments are revalued for any foreign exchange gains or losses at the applicable quarter-end rate, if the original investment was made in a currency other than U.S. dollars. If it is probable that the partnership will sell an investment, the carrying value is adjusted to the expected amount to be realized from the sale, exclusive of transaction costs. For private debt investments, there is generally no comparable public market. To determine fair value, the general partner takes into account the relevant following inputs: comparable market transactions, discount rates, cash flow projections, and/or liquidity, credit and market factors, company performance, current capital structure, applicable market trading and transaction comparables, applicable market yields, timing of future expected cash flows, and any recent trades in the secondary market for the security. Realized and unrealized profits and losses of

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the partnership are allocated pro rata to the limited partners in proportion to their respective partnership interest.

Real estate equity fund

At December 31, 2016, the City's Employee Benefit Trust Fund was invested in the Multi-Employer Property Trust, an open-end commingled real estate equity fund, in the amount of \$7,268,679. The fund invests in a diversified portfolio of institutional-quality real estate assets and 100 percent union-built new construction properties. The fund's real estate investments are stated at fair value as determined by the Trustees quarterly, utilizing independent third-party appraisals. Real estate investments are affected by, among other things, availability of capital, capitalization rates, discount rates, occupancy levels, rental rates, and interest and inflation rates. As a result, determining real estate investment values involves many assumptions. The fund's investments in joint ventures are presented on a net basis and stated at estimated fair value, which is derived from the fund's equity in the net assets of the joint venture. Mortgages and other loans receivable are carried at fair value as estimated by the trustee quarterly utilizing independent pricing services, appraisals, available market data, or a discounted cash flow methodology.

External investment pool

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

At December 31, 2016, the City held PLGIT-Class shares in the amount of \$285,729. PLGIT-Class shares require no minimum balance, no minimum initial investment, and have a one-day minimum investment period.

At December 31, 2016, the City held PLGIT/I-Class shares in the amount of \$108,847. PLGIT/I-Class shares require a minimum investment of \$50,000 and limits redemptions or exchanges to two per calendar month. However, there is no minimum investment period.

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

Real estate investment trusts (REIT)

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

Real Estate Investment Trusts	Fair Value
Agree Realty Corporation	\$ 97,902
Apple Hospitality REIT, Inc.	100,699
AvalonBay Communities	88,575
Boston Properties	60,374
CyrusOne, Inc.	198,646
HCP, Inc.	32,989
Kite Realty Group Trust	217,190
Monogram Residential Trust, Inc.	168,976
National Storage Affiliates	132,972
New Residential Investment Corporation	241,962
Physicians Realty Trust	164,649
QTS Realty Trust	248,995
Retail Opportunity Investments Corporation	178,781
Simon Property Group	115,486
Stag Industrial	171,912
Total real estate investment trusts	<u><u>\$ 2,220,108</u></u>

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

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

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

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Boston Properties focuses on properties in Boston, Los Angeles, New York, San Francisco, and Washington, D.C.

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

HCP, Inc. focuses on real estate serving the healthcare industry in the United States of America.

Kite Realty Group Trust focuses on high-quality neighborhood and community shopping centers in selected markets in the United States of America.

Monogram Residential Trust, Inc. focuses on high quality multifamily communities offering location and lifestyle amenities.

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

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

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

QTS Realty Trust focuses on data centers.

Retail Opportunity Investments Corporation focuses on necessity-based community and neighborhood shopping centers on the west coast of the United States of America, anchored by supermarkets and drugstores.

Simon Property Group focuses on retail real estate properties, primarily malls and shopping outlets.

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

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

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

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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, \$89,395,684 are held by the counterparty's trust department or agent in the City's name, \$4,935,103 are held by the counterparty's trust department or agent not in the name of the City, and the remaining balance of \$52,482,840 is not exposed to custodial credit risk because the investments are not evidenced by securities in book entry or paper form.

Credit risk. The City does have a formal policy that limits the City's investment in fixed income assets to a rating of investment grade or better (Baa or BBB) for the Employee Benefit Trust Fund, but not for the City's general investments. The City's money market and fixed income investments had the following level of exposure to credit risk as of December 31, 2016:

	Fair Value	Rating
Money market funds	\$ 297,326	AAA
Money market funds	4,981,986	Unrated
U.S. Government obligations	10,986,926	AAA
U.S. Government obligations	5,998,183	AA+
U.S. Government agency obligations	2,537,863	AAA
U.S. Government agency obligations	46,481	AA+
U.S. Government agency obligations	2,105,380	Not rated
Municipal bonds	137,650	AA-
Municipal bonds	134,706	A+
Corporate bonds and notes	765,963	AAA
Corporate bonds and notes	397,292	AA
Corporate bonds and notes	683,277	AA-
Corporate bonds and notes	1,125,678	A+
Corporate bonds and notes	1,839,907	A
Corporate bonds and notes	3,630,209	A-
Corporate bonds and notes	4,891,749	BBB+
Corporate bonds and notes	2,108,926	BBB
Corporate bonds and notes	351,981	BBB-
Corporate bonds and notes	200,204	Unrated
External investment pool	394,576	AAA

Concentration of credit risk. The City does have a formal policy that limits the amount the City may invest in any one issuer to five percent for the Employee Benefit Trust Fund, but not for the City's general investments. At December 31, 2016, the City does not hold more than five percent of the City's investments in the any one issuer.

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

	Fair Value	Investment Maturities			2028 and beyond
		2017	2018-2022	2023-2027	
Money market funds	\$ 5,279,312	\$ 5,279,312	\$ -	\$ -	\$ -
U.S. Government obligations	16,985,109	1,995,679	12,774,176	2,215,254	-
U.S. Government agency obligations	4,689,724	2,636,863	2,047,395	-	5,466
Municipal bonds	272,356	-	134,706	137,650	-
Corporate bonds and notes	15,995,186	674,080	11,365,965	3,079,847	875,294
External investment pool	394,576	394,576	-	-	-
	<u>\$ 43,616,263</u>	<u>\$ 10,980,510</u>	<u>\$ 26,322,242</u>	<u>\$ 5,432,751</u>	<u>\$ 880,760</u>

C. Restricted Cash, Cash Equivalents, and Investments

Business-Type Activities

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

Component Units

Parking Authority

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

A. Deposits

Custodial credit risk – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Parking Authority does not have a deposit policy for custodial credit risk. As of December 31, 2016, the Parking Authority's book balance was \$1,829,727 and the bank balance was \$1,763,730. Of the bank balance at December 31, 2016, \$251,136 was covered by federal depository insurance and \$1,512,594 was collateralized

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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's money market funds are considered Level 1 based on quoted market prices. The fair value of the Parking Authority's money market funds at December 31, 2016 was \$9,280,805.

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

At December 31, 2016, the Parking Authority had \$1,219 invested in the Commonwealth Treasury Department's INVEST Program (INVEST). The Parking Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for Parking Authority funds. INVEST was created to meet the investment needs of local governments, school districts, municipal authorities, and other types of governments in the Commonwealth. INVEST's investment objective is to seek current income while maintaining liquidity and a stable net asset value per share of \$1. Further information regarding INVEST and its investment strategies can be found at www.painvest.gov. The fair value of the Parking Authority's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth provides external regulatory oversight for the external investment pool.

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

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

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, 2016, all investments of the Parking Authority were rated AAA.

Interest rate risk – The Parking Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2016, the investments of the Parking Authority have an average weighted maturity of less than one year.

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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, 2016, the Library's book balance was \$36,568 and the bank balance was \$100,147. The entire bank balance was covered by federal depository insurance.

B. Investments

The Library's investments in corporate bonds are considered Level 2 based on secondary market quotes. The Library's remaining investments are considered Level 1 based on active market quotes. The fair value of the investments of the Library at December 31, 2016 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 92,169
Corporate bonds	50,427
Exchange traded funds	106,590
Equities	1,645,478
Total investments	<u>\$ 1,894,664</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 investments are not exposed to custodial credit risk, because they are not evidenced by securities in book entry or paper form.

CITY OF BETHLEHEM, PENNSYLVANIA

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Credit risk – The Library does not have a formal policy that would limit its investment choices with regard to credit risk. The Library’s investments had the following level of exposure to credit risk as of December 31, 2016:

	Fair Value	Rating
Money market funds	\$ 92,169	AA
Corporate bonds	25,231	A+
Corporate bonds	25,196	A-
Exchange traded funds	29,830	AAA
Exchange traded funds	33,910	A
Exchange traded funds	42,850	BBB

Concentration of credit risk – The Library places no limit on the amount the Library may invest in any one issuer. At December 31, 2016, 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	Investment Maturities		
	Value	2017	2018-2022	2023-2027
Money market funds	\$ 92,169	\$ 92,169	\$ -	\$ -
Corporate bonds	50,427	25,231	25,196	-
Exchanged traded funds	106,590	-	63,740	42,850
Total	\$ 249,186	\$ 117,400	\$ 88,936	\$ 42,850

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.

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

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

A. Deposits

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

As of June 30, 2016, the Redevelopment Authority's book balance was \$333,724 and the bank balance was \$329,424. Of the bank balance at June 30, 2016, \$250,000 was covered by federal depository insurance and \$79,424 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 Redevelopment Authority's investments are considered Level 1 based on quoted market prices. The fair value of the Redevelopment Authority's money market funds at June 30, 2016 was \$9,244,029.

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, 2016, 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

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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, 2016.

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, 2016, 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.

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4. CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>January 1,</u> <u>2016</u>	<u>Additions and</u> <u>Transfers In</u>	<u>Disposals and</u> <u>Transfers Out</u>	<u>December 31,</u> <u>2016</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,752,780	\$ -	\$ -	\$ 6,752,780
Construction in progress	<u>2,668,029</u>	<u>242,986</u>	<u>(1,584,198)</u>	<u>1,326,817</u>
Total capital assets not being depreciated	<u>9,420,809</u>	<u>242,986</u>	<u>(1,584,198)</u>	<u>8,079,597</u>
Capital assets being depreciated:				
Buildings and related improvements	31,292,280	3,494,541	-	34,786,821
Improvements other than buildings	47,790,001	418,654	-	48,208,655
Furniture, machinery, and equipment	42,218,519	2,540,960	(894,116)	43,865,363
Infrastructure	<u>35,046,186</u>	<u>13,114,899</u>	<u>-</u>	<u>48,161,085</u>
Total capital assets being depreciated	<u>156,346,986</u>	<u>19,569,054</u>	<u>(894,116)</u>	<u>175,021,924</u>
Less accumulated depreciation for:				
Buildings and related improvements	(25,601,555)	(1,112,573)	-	(26,714,128)
Improvements other than buildings	(33,976,284)	(1,729,473)	-	(35,705,757)
Furniture, machinery, and equipment	(32,071,781)	(3,113,267)	877,936	(34,307,112)
Infrastructure	<u>(15,930,258)</u>	<u>(2,523,806)</u>	<u>-</u>	<u>(18,454,064)</u>
Total accumulated depreciation	<u>(107,579,878)</u>	<u>(8,479,119)</u>	<u>877,936</u>	<u>(115,181,061)</u>
Total capital assets being depreciated, net	<u>48,767,108</u>	<u>11,089,935</u>	<u>(16,180)</u>	<u>59,840,863</u>
Governmental activities capital assets, net	<u>\$ 58,187,917</u>	<u>\$ 11,332,921</u>	<u>\$ (1,600,378)</u>	<u>\$ 67,920,460</u>

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	January 1, 2016	Additions and Transfers In	Disposals and Transfers Out	December 31, 2016
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,124,842	\$ -	\$ -	\$ 2,124,842
Construction in progress	7,944,521	2,208,600	(7,405,285)	2,747,836
Total capital assets not being depreciated	<u>10,069,363</u>	<u>2,208,600</u>	<u>(7,405,285)</u>	<u>4,872,678</u>
Capital assets being depreciated:				
Land improvements	1,100,349	-	-	1,100,349
Building and fixtures	13,879,792	24,314	-	13,904,106
Improvements other than buildings	218,700,004	15,925,423	-	234,625,427
Furniture, machinery, and equipment	4,617,444	58,831	-	4,676,275
Vehicles	4,774,347	203,195	(168,400)	4,809,142
Office equipment	115,998	-	-	115,998
Total capital assets being depreciated	<u>243,187,934</u>	<u>16,211,763</u>	<u>(168,400)</u>	<u>259,231,297</u>
Less accumulated depreciation for:				
Land improvements	(1,019,856)	(26,304)	-	(1,046,160)
Building and fixtures	(12,906,922)	(199,700)	-	(13,106,622)
Improvements other than buildings	(126,940,463)	(7,634,318)	-	(134,574,781)
Furniture, machinery, and equipment	(4,341,587)	(101,617)	-	(4,443,204)
Vehicles	(3,955,330)	(219,686)	133,009	(4,042,007)
Office equipment	(112,682)	(2,344)	-	(115,026)
Total accumulated depreciation	<u>(149,276,840)</u>	<u>(8,183,969)</u>	<u>133,009</u>	<u>(157,327,800)</u>
Total capital assets being depreciated, net	<u>93,911,094</u>	<u>8,027,794</u>	<u>(35,391)</u>	<u>101,903,497</u>
Business-type activities capital assets, net	<u>\$ 103,980,457</u>	<u>\$ 10,236,394</u>	<u>\$ (7,440,676)</u>	<u>\$ 106,776,175</u>

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Depreciation expense was charged to governmental activities as follows:

Administrative	\$ 59,605
Community development	115,678
Parks and public property	1,976,984
Public works	3,958,320
Police	1,552,950
Fire	651,852
Library	163,730
	<u>\$ 8,479,119</u>

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

Water Fund	\$ 5,468,111
Sewer Fund	2,546,657
Municipal Golf Fund	169,201
	<u>\$ 8,183,969</u>

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	January 1, 2016	Additions and Transfers In	Disposals and Transfers Out	December 31, 2016
Parking Authority:				
Capital assets, not being depreciated:				
Land	\$ 1,762,044	\$ 90,000	\$ -	\$ 1,852,044
Construction in progress	1,592,483	4,105,235	(76,668)	5,621,050
Total capital assets, not being depreciated	3,354,527	4,195,235	(76,668)	7,473,094
Capital assets, being depreciated:				
Parking garages	26,751,880	345,520	-	27,097,400
Furniture and fixtures	1,544,914	286,688	(104,815)	1,726,787
Automobiles	465,399	29,817	(12,178)	483,038
Leasehold and parking lot improvements	21,860	-	-	21,860
Total capital assets, being depreciated	28,784,053	662,025	(116,993)	29,329,085
Less accumulated depreciation	(14,962,208)	(1,096,844)	97,880	(15,961,172)
Total capital assets, being depreciated, net	13,821,845	(434,819)	(19,113)	13,367,913
Total capital assets, net	\$ 17,176,372	\$ 3,760,416	\$ (95,781)	\$ 20,841,007

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

	January 1, 2016	Additions	Disposals	December 31, 2016
Library:				
Capital assets, not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Construction in progress	443,327	-	(443,327)	-
Total capital assets, not being depreciated	448,327	-	(443,327)	5,000
Capital assets, being depreciated:				
Buildings and related improvements	277,428	24,862	-	302,290
Furniture, machinery, and equipment	829,624	29,934	-	859,558
Total capital assets, being depreciated	1,107,052	54,796	-	1,161,848
Less accumulated depreciation	(745,328)	(59,230)	-	(804,558)
Total capital assets, being depreciated, net	361,724	(4,434)	-	357,290
Total capital assets, net	\$ 810,051	\$ (4,434)	\$ (443,327)	\$ 362,290

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

	July 1, 2015	Additions	Disposals	June 30, 2016
Redevelopment Authority:				
Capital assets, not being depreciated:				
Construction in progress	\$ 917,782	\$ 4,058	\$ -	\$ 921,840
Total capital assets, not being depreciated	917,782	4,058	-	921,840
Capital assets, being depreciated:				
Buildings	30,603,748	663,407	-	31,267,155
Total capital assets, being depreciated	30,603,748	663,407	-	31,267,155
Less accumulated depreciation	(475,023)	(645,125)	-	(1,120,148)
Total capital assets, being depreciated, net	30,128,725	18,282	-	30,147,007
Total capital assets, net	\$ 31,046,507	\$ 22,340	\$ -	\$ 31,068,847

5. INTERFUND RECEIVABLE AND PAYABLES BALANCES

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2016 is as follows:

	Due From Other Funds	Due To Other Funds
Governmental funds:		
General Fund	\$ 629,604	\$ 1,605,466
Non-Utility Capital Improvements Fund	23,500	65,570
Proprietary funds:		
Sewer Fund	55,000	-
Other Non-Major Enterprise Fund	10,570	653,104
Agency Fund	1,605,466	-
Total	\$ 2,324,140	\$ 2,324,140

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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

6. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2016 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ 2,260,345	\$ 8,838,027
Non-Utility Capital Improvements Fund	840,478	-
Debt Service Fund	9,275,728	-
Other Non-Major Governmental Funds	1,093,050	911,118
Proprietary funds:		
Water Fund	-	758,564
Sewer Fund	-	2,849,612
Other Non-Major Enterprise Fund	7,900	120,180
Total	<u>\$ 13,477,501</u>	<u>\$ 13,477,501</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, 2016

7. LONG-TERM OBLIGATIONS

Bonds and Notes Payable

A summary of long-term bonds and notes payable of the City at December 31, 2016 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	\$ 114,471,000	\$ 95,258,866	\$ 19,583,832	\$ 71,000	\$ 114,913,698
Issuance of debt	-	-	6,352,939	-	6,352,939
Accretion of capital appreciation bonds	-	1,781,205	-	-	1,781,205
Repayment of debt	(4,170,000)	(5,746,224)	(1,429,648)	(71,000)	(7,246,872)
	110,301,000	91,293,847	24,507,123	-	115,800,970
Plus unamortized bond premium	30,452	4,382,571	-	-	4,382,571
Less unamortized bond discount	(402,178)	-	(107,451)	-	(107,451)
Outstanding at end of year	<u>\$ 109,929,274</u>	<u>\$ 95,676,418</u>	<u>\$ 24,399,672</u>	<u>\$ -</u>	<u>\$ 120,076,090</u>

	Discretely Presented Component Units	
	Parking Authority	Redevelopment Authority
Outstanding at beginning of year	\$ 12,939,087	\$ 31,690,000
Issuance of debt	17,201,000	2,465,000
Repayment of debt	(5,216,503)	(4,315,000)
	24,923,584	29,840,000
Plus unamortized bond premium	38,259	-
Less unamortized bond discount	(280,990)	-
Outstanding at end of year	<u>\$ 24,680,853</u>	<u>\$ 29,840,000</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Year	Governmental Activities			Water Fund		
	Principal	Interest	Total	Principal	Interest	Total
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	6,198,016	2,323,394	8,521,410
2019	5,723,000	4,691,407	10,414,407	6,309,319	2,213,493	8,522,812
2020	5,902,000	4,511,047	10,413,047	6,496,950	2,022,615	8,519,565
2021	6,081,000	4,309,469	10,390,469	6,701,914	1,816,849	8,518,763
2022-2026	32,836,000	17,658,131	50,494,131	24,323,886	18,278,198	42,602,084
2027-2031	34,590,000	9,472,894	44,062,894	29,577,767	10,980,859	40,558,626
2032-2034	14,225,000	1,342,796	15,567,796	5,720,000	214,500	5,934,500
Totals	\$ 110,301,000	\$ 51,854,396	\$ 162,155,396	\$ 91,293,847	\$ 40,402,783	\$ 131,696,630

Year	Sewer Fund		
	Principal	Interest	Total
2017	\$ 1,566,018	\$ 393,786	\$ 1,959,804
2018	1,482,362	369,250	1,851,612
2019	1,334,339	418,247	1,752,586
2020	1,345,639	428,188	1,773,827
2021	1,233,930	422,413	1,656,343
2022-2026	6,561,073	1,823,807	8,384,880
2027-2031	7,424,046	959,381	8,383,427
2032-2034	3,559,716	111,102	3,670,818
Totals	\$ 24,507,123	\$ 4,926,174	\$ 29,433,297

Year	Parking Authority			Fiscal Year	Redevelopment Authority		
	Principal	Interest	Total		Principal	Interest *	Total
2017	\$ 806,888	\$ 715,590	\$ 1,522,478	2017	\$ 4,855,000	\$ 874,008	\$ 5,729,008
2018	832,662	662,364	1,495,026	2018	5,030,000	855,406	5,885,406
2019	853,456	645,534	1,498,990	2019	4,910,000	804,527	5,714,527
2020	1,210,578	624,577	1,835,155	2020	15,045,000	580,009	15,625,009
2021	970,000	600,167	1,570,167				
2022-2026	5,220,000	2,630,204	7,850,204				
2027-2031	5,095,000	1,893,867	6,988,867				
2032-2036	2,835,000	1,325,100	4,160,100				
2037-2041	3,285,000	873,450	4,158,450				
2042-2046	3,815,000	350,100	4,165,100				
Totals	\$ 24,923,584	\$ 10,320,953	\$ 35,244,537		\$ 29,840,000 *	\$ 3,113,950	\$ 32,953,950

* - Interest due on the Tax Increment Revenue Bonds, Series of 2010, is based on the interest rate in effect at June 30, 2016 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, 2016

Total principal and interest for the primary government due through maturity is \$323,285,323.

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.

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, Series B of 2015, Series A of 2016, and Series B of 2016, issued by the Parking Authority, are guaranteed by the City for the full term of the bonds. The reimbursement obligation of the Parking Authority to the City for payments made under the Guaranty Agreement shall be subordinate to debt service payments on the bonds, reimbursement to and rights of the bond insurer, and replenishment of the debt service reserve account. The City's legal authority and limits for extending the guarantees and types of obligations guaranteed is pursuant to the provisions of the Pennsylvania Local Government Unit Debt Act. The guarantees extend through the year ending December 31, 2046 and have a total amount outstanding at December 31, 2016 of \$96,270,000.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Long-term obligations payable at December 31, 2016 are as follows:

Governmental Activities:	Current Portion	Balance at December 31, 2016
	<u> </u>	<u> </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	\$ 75,000
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.	294,000	1,981,000
General Obligation Notes, Series C of 2010, due in annual installments of \$5,000 to \$1,800,000 through August 2020; interest rate of 3.55%.	1,800,000	5,410,000
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%.	75,000	17,415,000
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	6,780,000
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%.	240,000	5,065,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2016</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%.	605,000	7,070,000
General Obligation Notes, Series A of 2014, due in annual installments of \$5,000 to \$630,000 through October 2024; interest rates vary from 0.75% to 4.00%.	5,000	1,845,000
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%.	965,000	23,180,000
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%.	1,035,000	25,670,000
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	5,215,000
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%	320,000	2,735,000
Total Governmental Activities	<u>\$ 5,389,000</u>	<u>\$ 110,301,000</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, 2016

Business-Type Activities: Water Fund:	<u>Current Portion</u>	<u>Balance at December 31, 2016</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%.	\$ -	\$ 35,162,797
1998 Pennvest loan payable in monthly installments of \$116,147, including interest at 3.20% through 2018.	1,358,995	1,706,050
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.	57,000	385,000
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>4,550,000</u>	<u>54,040,000</u>
Total Water Fund	<u>5,965,995</u>	<u>91,293,847</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%.	110,000	470,000
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	5,625,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Business-Type Activities:	Current	Balance at
Sewer Fund:	<u>Portion</u>	<u>December 31, 2016</u>
2012 Pennvest loan payable in monthly installments of \$45,546, including interest at 1.51% through July 2032.	418,677	8,277,223
2013 Pennvest loan payable in monthly installments vary from \$416 to \$49,379, including interest at 1.00% through August 2017 and then at 1.743% through November 2034.	497,341	9,749,900
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>245,000</u>	<u>385,000</u>
Total Sewer Fund	<u>1,566,018</u>	<u>24,507,123</u>
Total Business-Type Activities	<u>\$ 7,532,013</u>	<u>\$ 115,800,970</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Component Units: Parking Authority:	<u>Current Portion</u>	<u>Balance at December 31, 2016</u>
Guaranteed Parking System Revenue Bonds, Series A of 2015, due in annual installments of \$60,000 to \$100,000, maturing in October 2022. Interest rates range from 1.091% to 3.319%. Secured by future revenues of the Parking Authority.	\$ 90,000	\$ 545,000
Guaranteed Parking System Revenue Bonds, Series B of 2015, due in annual installments of \$90,000 to \$715,000, maturing in October 2030. Interest rates range from 0.75% to 3.25%. Secured by future revenues of the Parking Authority.	685,000	8,855,000
Guaranteed Parking System Revenue Bonds, Series A of 2016, due in annual installments of \$5,000 to \$440,000, maturing in October 2025. Interest rates range from 1.442% to 3.025%. Secured by future revenues of the Parking Authority.	-	2,275,000
Guaranteed Parking System Revenue Bonds, Series B of 2016, due in annual installments of \$275,000 to \$810,000, maturing in October 2046. Interest rates range from 2.00% to 3.00%. Secured by future revenues of the Parking Authority.	-	13,140,000
Loan payable, \$1,581 per month, including interest at 2.74% through February 2020, secured loan.	17,623	57,413
Loan payable, \$1,262 per month, including interest at 1.98% through June 2020, unsecured loan.	14,265	51,171
Total Parking Authority	<u>\$ 806,888</u>	<u>\$ 24,923,584</u>

In December 2016, the Parking Authority entered into a Grant Anticipation Note, Series of 2016, in the amount of \$6,200,000. Commencing on June 15, 2017, semi-annual payments of interest only are due June 15th and December 15th of each year. One final payment of outstanding principal and interest is due on or before December 15, 2019. The interest rate is fixed at 1.75%. The Note is secured by proceeds of a grant from the Commonwealth. At December 31, 2016, no funds had been drawn down on this Note.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Redevelopment Authority:	Current Portion	Balance at June 30, 2016
	<u> </u>	<u> </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.	\$ 2,555,000	\$ 15,955,000
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%.	1,425,000	8,615,000
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%.	470,000	2,805,000
TIF Bonds, Series of 2016, due in annual installments, amortizing over approximately 5 years, with final maturity to occur on or before June 1, 2020; interest rate at 2.65%.	405,000	2,465,000
	<u>405,000</u>	<u>2,465,000</u>
Total Redevelopment Authority	<u>\$ 4,855,000</u>	<u>\$ 29,840,000</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Other Changes in Long-Term Debt

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

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016
Governmental activities:				
Accrued vacation and other compensated absences	\$ 4,257,925	\$ 73,487	\$ -	\$ 4,331,412
Capital leases	6,473,266	329,225	(940,294)	5,862,197
	<u>\$ 10,731,191</u>	<u>\$ 402,712</u>	<u>\$ (940,294)</u>	<u>\$ 10,193,609</u>
Business-type activities:				
Accrued vacation and other compensated absences	\$ 783,114	\$ 18,478	\$ -	\$ 801,592
Capital leases	327,387	95,205	(167,777)	254,815
	<u>\$ 1,110,501</u>	<u>\$ 113,683</u>	<u>\$ (167,777)</u>	<u>\$ 1,056,407</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, 2016, the net book value of the equipment and vehicles held under capital leases and included in capital assets was \$6,138,465 for governmental activities and \$339,056 for business-type activities.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

As of December 31, 2016, future minimum payments were as follows:

Year	Governmental Activities	Business-Type Activities
2017	\$ 1,142,415	\$ 141,377
2018	1,059,592	114,210
2019	719,044	16,498
2020	710,750	-
2021	734,732	-
2022-2026	2,301,293	-
Total commitment under capital leases	6,667,826	272,085
Less amount representing interest	805,629	17,270
Present value of future minimum lease payments	5,862,197	254,815
Less current portion	962,131	131,935
Long-term portion	\$ 4,900,066	\$ 122,880

Parking Authority

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016
Capital leases	\$ 446,119	\$ -	\$ (226,585)	\$ 219,534

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 \$814,171, respectively, at December 31, 2016. Amortization of the leased equipment and vehicles is included in depreciation expense.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

The future minimum lease payments required are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 95,950
2018	66,166
2019	55,297
2020	12,759
Total minimum lease payments	230,172
Less amount representing interest at 3.41% - 4.89%	10,638
Present value of minimum lease payments	219,534
Less current portion	89,871
Long-term portion	<u>\$ 129,663</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 Officers' and Employees' Plans. Contributions to the plans are governed by ordinances and collective bargaining agreements. These plans do not issue separate reports.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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, 2016

The combining information as of the year ended December 31, 2016 for the plans is as follows:

	<u>Police Pension Fund</u>	<u>Firemen Pension Fund</u>	<u>Officers' and Employees' Pension Fund</u>	<u>Employee Benefit Trust Fund Total</u>
Assets				
Cash and cash equivalents	\$ 2,777,820	\$ 2,037,544	\$ 242,648	\$ 5,058,012
Interest and dividends receivable	196,877	145,342	14,565	356,784
Investments	<u>77,701,862</u>	<u>56,994,665</u>	<u>6,787,421</u>	<u>141,483,948</u>
Total Assets	<u>\$ 80,676,559</u>	<u>\$ 59,177,551</u>	<u>\$ 7,044,634</u>	<u>\$ 146,898,744</u>
Net Position				
Restricted for employees' retirement benefits	<u>\$ 80,676,559</u>	<u>\$ 59,177,551</u>	<u>\$ 7,044,634</u>	<u>\$ 146,898,744</u>
Total Net Position	<u>\$ 80,676,559</u>	<u>\$ 59,177,551</u>	<u>\$ 7,044,634</u>	<u>\$ 146,898,744</u>
	<u>Police Pension Fund</u>	<u>Firemen Pension Fund</u>	<u>Officers' and Employees' Pension Fund</u>	<u>Employee Benefit Trust Fund Total</u>
Additions:				
Employee contributions	\$ 846,396	\$ 644,461	\$ -	\$ 1,490,857
Employer contributions	4,430,587	2,550,742	-	6,981,329
Investment income	1,283,324	947,753	118,578	2,349,655
Realized and unrealized gains, net	5,267,227	3,896,208	491,654	9,655,089
Investment expense	<u>(285,797)</u>	<u>(209,242)</u>	<u>(27,824)</u>	<u>(522,863)</u>
Total additions	<u>11,541,737</u>	<u>7,829,922</u>	<u>582,408</u>	<u>19,954,067</u>
Deductions:				
Benefits paid	6,328,562	4,335,057	817,601	11,481,220
Administrative costs	<u>32,879</u>	<u>22,991</u>	<u>6,332</u>	<u>62,202</u>
Total deductions	<u>6,361,441</u>	<u>4,358,048</u>	<u>823,933</u>	<u>11,543,422</u>
Change in Net Position	5,180,296	3,471,874	(241,525)	8,410,645
Net Position:				
Beginning of year	<u>75,496,263</u>	<u>55,705,677</u>	<u>7,286,159</u>	<u>138,488,099</u>
End of year	<u>\$ 80,676,559</u>	<u>\$ 59,177,551</u>	<u>\$ 7,044,634</u>	<u>\$ 146,898,744</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Plan Memberships

Membership related to the Police, Firemen, and O&E Plans at December 31, 2016 and membership related to the PMRS Plan at December 31, 2014 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	171	129	37	307
Inactive plan members entitled to but not yet receiving benefits	-	-	-	10
Active plan members	147	105	-	320
Total	318	234	37	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 1/40th of such pension amount per year of benefit service completed by the member in excess of 20 years, up to an additional \$100 per month. Average monthly compensation is equal to the higher of 1/12th of the average annual compensation over the highest five consecutive calendar years of employment or the monthly salary of the member at retirement.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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

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

Members Hired On or After January 1, 2012

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

Disability Benefit – If an active member is disabled in the line of duty, the member is eligible for a monthly disability pension equal to the benefit based upon the normal retirement benefit formula. If an active member who has completed ten years of benefit service, but less than 15 years of benefit service, is disabled outside the line of duty, the member is eligible for a monthly disability pension equal to 30% of average monthly compensation. If an active member who has completed 15 years of benefit service, but less than 21 years of benefit service, is disabled outside of the line of duty, the member is eligible for a monthly disability pension equal to 50% of average monthly compensation. If an active member who has completed 21 or more years of benefit service is disabled outside of the line of duty, the member is eligible for a monthly disability pension equal to the benefit based upon the

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

normal retirement benefit formula. The disability benefit is payable upon discontinuance of any workers' compensation benefits being paid to the member.

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

Benefit Provisions – Firemen

Members Hired Before October 24, 2011

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

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

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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, 2016, there was one participant in the DROP. As of December 31, 2016, the balance held by the Firemen Plan for the DROP totaled \$489,390.

Members Hired On or After October 24, 2011

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

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

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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.

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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, 2016, the City made its annual required contribution of \$4,430,587, \$2,550,742, and \$0 for the City's Police, Firemen, and O&E Plans, respectively. During the year ended December 31, 2015, the City made a contribution of \$1,118,126 to the City's PMRS plan. The MMO for the year ended December 31, 2015 was \$1,117,586. During the year ended December 31, 2016, the City contributed its annual required contribution of \$1,177,599 for the City's PMRS plan. The 2016 contribution is reported as a deferred outflow of resources at December 31, 2016.

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2016

Changes in Net Pension Liability - Police

The changes in the net pension liability for the City for the year ended December 31, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2015	\$ 104,556,641	\$ 75,496,263	\$ 29,060,378
Changes for the year:			
Service cost	2,132,733	-	2,132,733
Interest	7,764,382	-	7,764,382
Contributions - employer	-	4,430,587	(4,430,587)
Contributions - employees	-	846,396	(846,396)
Net investment income	-	6,264,754	(6,264,754)
Benefit payments, including refunds	(6,328,562)	(6,328,562)	-
Administrative expense	-	(32,879)	32,879
Net changes	<u>3,568,553</u>	<u>5,180,296</u>	<u>(1,611,743)</u>
Balances at December 31, 2016	<u>\$ 108,125,194</u>	<u>\$ 80,676,559</u>	<u>\$ 27,448,635</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>74.6%</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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Changes in Net Pension Liability - Firemen

The changes in the net pension liability for the City for the year ended December 31, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2015	\$ 70,547,184	\$ 55,705,677	\$ 14,841,507
Changes for the year:			
Service cost	1,355,990	-	1,355,990
Interest	5,213,255	-	5,213,255
Contributions - employer	-	2,550,742	(2,550,742)
Contributions - employees	-	644,461	(644,461)
Net investment income	-	4,634,719	(4,634,719)
Benefit payments, including refunds	(4,335,057)	(4,335,057)	-
Administrative expense	-	(22,991)	22,991
Net changes	<u>2,234,188</u>	<u>3,471,874</u>	<u>(1,237,686)</u>
Balances at December 31, 2016	<u>\$ 72,781,372</u>	<u>\$ 59,177,551</u>	<u>\$ 13,603,821</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>81.3%</u>

CITY OF BETHLEHEM, PENNSYLVANIA

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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, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2015	\$ 5,265,584	\$ 7,286,159	\$ (2,020,575)
Changes for the year:			
Interest	364,258	-	364,258
Net investment income	-	582,408	(582,408)
Benefit payments, including refunds	(817,601)	(817,601)	-
Administrative expense	-	(6,332)	6,332
Net changes	<u>(453,343)</u>	<u>(241,525)</u>	<u>(211,818)</u>
Balances at December 31, 2016	<u>\$ 4,812,241</u>	<u>\$ 7,044,634</u>	<u>\$ (2,232,393)</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>146.4%</u>

The net pension asset of the O&E plan is allocated between governmental activities and business-type activities in the amounts of \$1,473,379 and \$759,014, respectively, at December 31, 2016.

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Changes in Net Pension Liability - PMRS

The changes in the net pension liability for the City for the year ended December 31, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 130,977,234	\$ 126,991,206	\$ 3,986,028
Changes for the year:			
Service cost	2,610,686	-	2,610,686
Interest	7,143,983	-	7,143,983
Changes in assumptions	2,482,253	-	2,482,253
Contributions - employer	-	1,118,126	(1,118,126)
Contributions - employees	-	1,539,086	(1,539,086)
Net investment income	-	8,161	(8,161)
Transfers	8,868	8,868	-
Benefit payments, including refunds	(7,502,216)	(7,502,216)	-
Administrative expense	-	(301,278)	301,278
Net changes	4,743,574	(5,129,253)	9,872,827
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	\$ 135,720,808	\$ 121,861,953	\$ 13,858,855
Plan fiduciary net position as a percentage of the total pension liability			89.8%

The net pension liability of the PMRS plan is allocated between governmental activities and business-type activities in the amounts of \$9,146,844 and \$4,712,011, respectively, at December 31, 2016.

Actuarial Assumptions – Police, Firemen, and O&E

The net pension liability was measured as of December 31, 2016 and was determined by rolling forward liabilities from the January 1, 2015 actuarial valuation. The January 1, 2015 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

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NOTES TO FINANCIAL STATEMENTS

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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, 2015, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:

Investment rate of return	5.5%
Projected salary increases	2.80 - 7.05%
* includes inflation rate of 3%	
Cost-of-living adjustments	2.8%

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

Pre-retirement mortality:

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

Post-retirement mortality:

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

Changes in Actuarial Assumptions –The actuarial assumptions noted above were used for the prior measurement date of December 31, 2014 except for: (1) projected salary increases were 3.0% through 8.3%, (2) the PMRS Experience Study was for the period January 1, 2005 to December 31, 2008, (3) the pre-retirement mortality table for males was RP 2000 with one year set back and for females was RP 2000 with five-year set back, and (4) the post-retirement mortality table for males and females was RP 2000 Sex-Distinct Mortality Table. These assumption changes increased the total pension liability by \$2,482,253.

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,

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guidelines for the selection of investment managers, permissible securities, and the criteria for evaluating investment performance of the Funds. The benefit obligations for the Funds are long-term in nature and the investment of the assets should also have a long-term focus. The investment objectives for the Funds' assets are to:

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

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

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

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

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

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

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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, 2016 are summarized in the following table:

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

Long-Term Expected Rate of Return – PMRS

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

Rate of Return - The money-weighted rate of return expresses investment performance, net of investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2016, the annual money-weighted rate of return on Police, Firemen, and O&E Plan investments, net of investment expense, was 8.75%.

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, 2016, 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, 2016 was 7.5%. The Plans' fiduciary net position is projected

CITY OF BETHLEHEM, PENNSYLVANIA

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to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Act 205. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

Discount Rate – PMRS

The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities’ total pension liability as of December 31, 2015 was 5.5%. The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System’s long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

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	\$ 40,337,390	\$ 27,448,635	\$ 16,596,743
Firemen	\$ 21,743,707	\$ 13,603,821	\$ 6,671,264
O&E	\$ (2,008,934)	\$ (2,232,393)	\$ (2,436,539)
	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
PMRS	\$ 29,343,396	\$ 13,858,855	\$ 722,889

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Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended December 31, 2016, the City recognized pension expense of \$9,975,834 in the governmental activities and \$1,253,800 in the business-type activities. At December 31, 2016, the City reported deferred outflows of resources related to pensions from the following sources:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<u>Deferred Outflows of Resources:</u>		
Net difference between projected and actual earnings on pension plan investments	\$ 8,828,440	\$ 2,219,108
Differences between expected and actual experience	4,224,394	93,685
Changes in assumptions	1,310,630	675,172
City contributions subsequent to the measurement date	<u>776,924</u>	<u>400,675</u>
Total deferred outflows of resources	<u>\$ 15,140,388</u>	<u>\$ 3,388,640</u>

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The differences in the City's expected and actual experience and changes in assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. City contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending December 31, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2017	\$ 3,705,708	\$ 782,152
2018	3,705,708	782,152
2019	3,705,709	782,152
2020	1,595,051	641,509
2021	602,821	-
Thereafter	1,048,467	-
	<u>\$ 14,363,464</u>	<u>\$ 2,987,965</u>

Component Units' Pension Plans

Plan Description and Administration

Library

Effective January 1, 2013, the Library is no longer a part of the City's PMRS pension plan. The Library will pay the City \$165,444 per year for ten years as part of an agreement to assist the City in meeting unfunded pension plan obligations on retired or fully vested Library employees. During the year ended December 31, 2016, the Library paid \$165,444 to PMRS on behalf of the City for the fourth 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

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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, 2016, the Parking Authority paid \$188,592 to PMRS on behalf of the City for the fourth 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.

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.

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

Redevelopment Authority

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

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

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

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

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

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

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

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Plan Membership

Parking Authority

Membership of the Parking Authority's pension plan consisted of the following at December 31, 2014:

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

Redevelopment Authority

Membership of the Redevelopment Authority's pension plan consisted of the following at December 31, 2014:

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

Contributions

Parking Authority

The Parking Authority's funding policy is to fund the minimum pension plan requirement computed in accordance with Act 205. The Parking Authority's funding policy requires that annual contributions be based upon the Parking Authority pension plan's MMO, which are actuarially determined rates that should result in the accumulation of assets that are sufficient to pay benefits when due. Active employees are required to contribute an amount equal to 7.50% of compensation. During the year ended December 31, 2015, the Parking Authority made a contribution of \$59,568. The MMO for the year ended December 31, 2015 was \$59,488. During the year ended December 31, 2016, the Parking Authority made a contribution of \$64,835. The MMO for the year ended December 31, 2016 was \$64,835. The 2016 contribution is reported as a deferred outflow of resources at December 31, 2016.

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Redevelopment Authority

The Redevelopment Authority's funding policy is to fund the minimum pension plan requirement computed in accordance with Act 205. The Redevelopment Authority's funding policy requires that annual contributions be based upon the Redevelopment Authority pension plan MMO, which are actuarially determined rates that should result in the accumulation of assets that are sufficient to pay benefits when due. All full-time employees are required to contribute five and a half percent of their annual covered salary. The MMO for the year ended December 31, 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 \$29,304. The MMO for the year ended December 31, 2016 was \$27,449. During the year ended June 30, 2016, the Redevelopment Authority made a contribution to the Redevelopment Authority pension plan in the amount of \$27,339.

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2016

Changes in the Net Pension Liability

Parking Authority

The changes in the net pension liability of the Parking Authority for the year ended December 31, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 2,470,145	\$ 2,415,420	\$ 54,725
Changes for the year:			
Service cost	142,903	-	142,903
Interest	135,565	-	135,565
Changes in assumptions	72,908		72,908
Contributions - employer	-	59,568	(59,568)
Contributions - employees	-	74,413	(74,413)
Net investment income	-	181,173	(181,173)
Benefit payments, including refunds	(300,495)	(300,495)	-
Administrative expense	-	(5,984)	5,984
Net changes	50,881	8,675	42,206
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	\$ 2,521,026	\$ 2,424,095	\$ 96,931
Plan fiduciary net position as a percentage of the total pension liability			96.2%

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

Changes in Actuarial Assumptions – The changes in actuarial assumptions for the Parking Authority’s pension plan are consistent with those presented for the City’s PMRS pension plan. These assumption changes increased the Parking Authority’s total pension liability by \$72,908.

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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 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>\$ 431,709</u>	<u>\$ 96,931</u>	<u>\$ (186,682)</u>

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Redevelopment Authority

The changes in the net pension liability of the Redevelopment Authority for the year ended June 30, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2015 (based on the measurement date of December 31, 2014)	\$ 929,828	\$ 798,373	\$ 131,455
Changes for the year:			
Service cost	22,509	-	22,509
Interest	50,385	-	50,385
Changes in assumptions	24,308	-	24,308
Contributions - employer	-	27,007	(27,007)
Contributions - employees	-	8,592	(8,592)
Net investment income	-	19,218	(19,218)
Benefit payments, including refunds	(73,458)	(73,458)	-
Administrative expense	-	(1,918)	1,918
Net changes	23,744	(20,559)	44,303
Balances at June 30, 2016 (based on the measurement date of December 31, 2015)	\$ 953,572	\$ 777,814	\$ 175,758
Plan fiduciary net position as a percentage of the total pension liability			81.6%

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

Changes in Actuarial Assumptions – The changes in actuarial assumptions for the Redevelopment Authority’s pension plan are consistent with those presented for the City’s PMRS pension plan. These assumption changes increased the Redevelopment Authority’s total pension liability by \$24,308.

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NOTES TO FINANCIAL STATEMENTS

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

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

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

1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
\$ 227,904	\$ 175,758	\$ 88,339

Pension Expense and Deferred Outflows of Resources to Pension

Parking Authority

For the year ended December 31, 2016, the Parking Authority recognized pension expense of \$156,984. At December 31, 2016, the Parking Authority reported deferred outflows of resources related to pension from the following sources:

Differences between expected and actual experience	\$ 108,589
Authority contributions subsequent to the measurement date	64,835
Changes in assumptions	60,757
Net difference between projected and actual earnings on pension plan investments	98,480
Total	<u>\$ 332,661</u>

The differences in the Parking Authority’s expected and actual experience and changes in assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Parking Authority contributions subsequent to the

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measurement date, in the amount of \$64,835, will be recorded as a reduction to the pension liability during the year ending December 31, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	
2017	\$ 75,625
2018	75,625
2019	75,624
2020	28,799
2021	12,153
	<u>\$ 267,826</u>

Redevelopment Authority

For the year ended June 30, 2016, the Redevelopment Authority recognized pension expense of \$36,970. At June 30, 2016, the Redevelopment Authority reported deferred outflows of resources related to pensions from the following sources:

Differences between expected and actual experience	\$ 9,898
Changes in assumptions	18,231
Authority contributions subsequent to the measurement date	20,587
Net difference between projected and actual earnings on pension plan investments	<u>14,892</u>
Total	<u>\$ 63,608</u>

The differences in the Redevelopment Authority's expected and actual experience and change in assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Redevelopment Authority contributions subsequent to the measurement date, in the amount of \$20,587, will be recorded as a reduction to the pension liability during the year ending June 30, 2017. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

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Year ending June 30,

2017	\$ 14,364
2018	14,364
2019	9,413
2020	4,880
	<u>\$ 43,021</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 \$380 as of January 1, 2016 with an increase to \$400 as of January 1, 2017. If the retiree dies, his or her spouse will be covered and the City will contribute to coverage for the spouse until Medicare eligibility, unless the spouse remarries or has a job in which health insurance coverage is normally granted. If the retiree reaches Medicare eligibility prior to his or her spouse, the spouse may

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

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

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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, 2016, establishes retirees' eligibility for post-retirement medical benefits. Article VII Section D of the personnel manual establishes retirees' eligibility for post-retirement life-insurance benefits.

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

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

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

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

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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, 2016, the City contributed \$836,970 to the OPEB plan.

Police:

Police would pay any additional premiums above the City's contribution of \$380. For the year ended December 31, 2016, police retirees contributed \$175,522 toward the cost of their plans.

Firefighters:

Firefighters would pay any additional premiums above the City's contribution of \$380. For the year ended December 31, 2016, firefighter retirees contributed \$171,437 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, 2016, non-uniformed union and non-union retirees contributed \$305,165 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.

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

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2016

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, 2016 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 1,220,045	\$ 234,421	\$ 1,454,466
Interest on net OPEB obligation	192,372	41,166	233,538
Adjustment to ARC	(264,640)	(53,965)	(318,605)
Annual OPEB cost	1,147,777	221,622	1,369,399
Contribution made	(700,981)	(135,989)	(836,970)
Change in Net OPEB obligation	446,796	85,633	532,429
Net OPEB obligation, beginning	4,277,104	912,624	5,189,728
Net OPEB obligation, ending	<u>\$ 4,723,900</u>	<u>\$ 998,257</u>	<u>\$ 5,722,157</u>

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2016	\$ 1,369,399	61.1%	\$ 5,722,157
2015	1,405,626	66.1%	5,189,728
2014	1,414,072	63.6%	4,713,911

Funded Status and Schedule of Funding Progress

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

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

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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 \$230,862 to the plan during 2016. 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 2016. 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 \$5,155,036 at December 31, 2016. Subsequent to year-end, the City entered into construction contracts for approximately \$3,200,000.

At December 31, 2016, the Parking Authority has construction commitments related to garage construction projects in the amount of \$10,543,423. Subsequent to year-end, the Parking Authority approved construction contracts in the amount of \$438,875.

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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, 2016. 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, 2016, 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.

Host Fee

Based on a decision by the Commonwealth State Supreme Court, which ruled that the section of the gaming act that set municipal and county host fees for casinos violated the state constitution Uniformity Clause, the casino host fee as it relates to slot machines expired on May 26, 2017. The State Supreme Court decision does not affect the section of the gaming act dealing with table games (approximately 9% of the 2016 host fee revenue); therefore, that revenue to the City is not impacted. The State Legislature appears confident that they will amend that section of the law so that all municipalities and counties affected by the decision will remain whole. The delay in fixing the legislation relates to other sections of the gaming act that some State Legislators are looking to amend to address the State's budget deficit, such as allowing internet gaming and/or slot machines in taverns and restaurants.

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 \$29,840,000 at June 30, 2016. During the year ended December 31, 2016, 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

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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

Armory Rental Agreement

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

Subsequent to June 30, 2016, the Redevelopment Authority elected to purchase the property and entered into an agreement to sell the property for the purchase price of \$322,000.

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, 2016, 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, 2016	Reserve Requirement
	2010	\$ 2,777,479	\$ 2,760,000
	2012	506,029	1,000,000
	2013	167,252	326,000
	2015	246,513	246,500

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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.

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

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 2016. 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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

15. NEGATIVE NET POSITION

Municipal Golf Fund

The Municipal Golf Fund had a deficit balance of \$512,736 at December 31, 2016. 2016 was the last year for debt service related to golf course improvements. This will reduce debt expenses in 2017 by approximately \$74,000. Additional expense reductions were implemented as part of the 2017 budget. The approved budget for 2017 was \$1,495,000 as compared to \$1,600,000 for 2016.

16. CONDUIT DEBT

Redevelopment Authority

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

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

17. SUBSEQUENT EVENTS

In March 2017, the City issued General Obligation Bonds, Series A of 2017, in the amount of \$10,660,000, for the advance refunding of the outstanding General Obligation Refunding Bonds, Series A of 2011, for the advance refunding of a portion of the General Obligation Bonds, Series A of 2013, and for prepaying a portion of the General Obligation Notes, Series C of 2010.

In March 2017, the City issued General Obligation Bonds, Series B of 2017, in the amount of \$5,555,000, for various capital projects of the City related to nonutility projects.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

In March 2017, the City issued General Obligation Bonds, Series C of 2017, in the amount of \$5,130,000, for various capital projects of the City related to sewer projects.

In March 2017, the City issued General Obligation Bonds, Series D of 2017, in the amount of \$365,000, for the acquisition of blighted properties within the City.

In September 2017, the City approved the issuance of Tax Exempt General Obligation Bonds, Series E of 2017, in the maximum amount of \$23,000,000, for the refunding of the outstanding Bethlehem Authority Guaranteed Lease Revenue Bonds, Series A of 2011.

Redevelopment Authority

In December 2016, the Redevelopment Authority issued its Tax Increment Revenue Bonds, Series 2016, in the amount not to exceed \$650,000.

**Required Supplementary
Information**

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 38,359,667	\$ 38,359,667	\$ 39,442,758	\$ 1,083,091
Licenses and permits	2,985,626	2,985,626	2,808,668	(176,958)
Intergovernmental	6,830,889	7,227,387	6,970,829	(256,558)
Departmental earnings	7,342,000	7,342,000	7,462,437	120,437
Fines and forfeitures	450,000	450,000	366,782	(83,218)
Investment income	20,000	20,000	46,719	26,719
Municipal recreation	555,000	555,000	454,791	(100,209)
Host fees	9,700,000	9,812,039	9,812,039	-
Other operating revenues	954,710	954,710	815,812	(138,898)
Miscellaneous	1,813,981	1,813,981	1,596,037	(217,944)
Total revenues	69,011,873	69,520,410	69,776,872	256,462
Expenditures:				
Current:				
General government	986,386	991,871	965,467	26,404
Administration	1,867,580	1,887,020	1,739,425	147,595
Community development	5,203,454	5,678,592	4,984,801	693,791
Parks and public property	4,165,938	4,164,656	3,945,443	219,213
Public works	6,478,870	6,603,200	6,022,890	580,310
Police	14,631,370	14,674,084	14,436,352	237,732
Fire	10,480,113	11,371,581	11,204,568	167,013
General	20,553,930	19,504,844	18,690,120	814,724
Civic	116,769	116,769	115,162	1,607
Library	1,315,934	1,315,934	1,315,934	-
Debt service:				
Principal	2,002,000	2,002,000	2,002,000	-
Interest	3,555,824	3,556,154	3,556,150	4
Total expenditures	71,358,168	71,866,705	68,978,312	2,888,393
Excess (Deficiency) of Revenues Over Expenditures	(2,346,295)	(2,346,295)	798,560	3,144,855
Other Financing Sources (Uses):				
Transfers in	2,963,927	2,963,927	2,941,242	(22,685)
Transfers out	(1,967,632)	(1,967,632)	(1,967,632)	-
Total other financing sources (uses)	996,295	996,295	973,610	(22,685)
Net Change in Fund Balance	(1,350,000)	(1,350,000)	1,772,170	3,122,170
Fund Balance:				
Beginning of the year, budgetary basis	1,350,000	1,350,000	4,785,272	3,435,272
End of the year, budgetary basis	\$ -	\$ -	\$ 6,557,442	\$ 6,557,442

See accompanying notes to budgetary comparison schedule.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2016

1. BUDGETARY BASIS OF ACCOUNTING

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

2. ADJUSTMENT TO CONVERT FROM BUDGETARY BASIS TO GAAP – GENERAL FUND

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

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Budgetary basis	\$ 72,718,114	\$ 70,945,944
Other fund borrowings	125,000	-
Accrual adjustments:		
Receivables:		
Beginning of year	(11,239,611)	(3,339)
End of year	11,224,141	-
Due from/to:		
Beginning of year	8,966,777	6,922,535
End of year	(8,923,299)	(6,770,034)
Accrued liabilities:		
Beginning of year	(49,883)	(3,805,107)
End of year	-	2,407,561
Unearned and unavailable revenues:		
Beginning of year	2,013,243	-
End of year	(2,161,685)	-
Agency transactions	245,924	27,000
Reclassifications	9,462,779	9,462,779
GAAP basis	<u>\$ 82,381,500</u>	<u>\$ 79,187,339</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

	2016*	2015	2014
Total Pension Liability:			
Service cost	\$ 2,132,733	\$ 2,040,893	\$ 2,051,464
Interest	7,764,382	7,503,420	6,976,913
Differences between expected and actual experience	-	4,010,737	-
Benefit payments, including refunds	(6,328,562)	(5,984,760)	(6,032,142)
Net Changes in Total Pension Liability	3,568,553	7,570,290	2,996,235
Total Pension Liability - Beginning	104,556,641	96,986,351	93,990,116
Total Pension Liability - Ending (a)	\$ 108,125,194	\$ 104,556,641	\$ 96,986,351
Plan Fiduciary Net Position:			
Contributions - employer	\$ 4,430,587	\$ 4,298,925	\$ 3,520,610
Contributions - employee	846,396	823,385	817,800
Net investment income	6,264,754	414,168	3,608,964
Benefit payments, including refunds	(6,328,562)	(5,984,760)	(6,032,142)
Administrative expense	(32,879)	(18,920)	(7,400)
Net Change in Plan Fiduciary Net Position	5,180,296	(467,202)	1,907,832
Plan Fiduciary Net Position - Beginning	75,496,263	75,963,465	74,055,633
Plan Fiduciary Net Position - Ending (b)	\$ 80,676,559	\$ 75,496,263	\$ 75,963,465
Net Pension Liability - Ending (a-b)	\$ 27,448,635	\$ 29,060,378	\$ 21,022,886
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.61%	72.21%	78.32%
Covered Employee Payroll	\$ 12,453,621	\$ 11,756,420	\$ 11,524,100
Net Pension Liability as a Percentage of Covered Employee Payroll	220.41%	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

	2016*	2015	2014	2013	2012	2011	2010	2009	2008	2007
Schedule of City Contributions										
Actuarially determined contribution	\$ 4,430,587	\$ 4,298,925	\$ 3,520,610	\$ 3,494,690	\$ 2,520,216	\$ 2,534,484	\$ 1,921,109	\$ 1,847,708	\$ 1,713,031	\$ 1,692,287
Contributions in relation to the actuarially determined contributions	4,430,587	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
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ (79,838)	\$ (169,929)	\$ (90,965)	\$ -	\$ (25,964)
Covered employee payroll	\$ 12,453,621	\$ 11,756,420	\$ 11,524,100							
Contributions as a percentage of covered employee payroll	35.58%	36.57%	30.55%							
Investment Returns										
Annual money-weighted rate of return, net of investment expense	8.75%	0.84%	5.73%							
Methods and assumptions used to determine contribution rate for the year ended December 31, 2016:										
Actuarial valuation date:	January 1, 2015									
Actuarial cost method:	Entry age normal									
Amortization method:	Level dollar closed									
Remaining amortization period:	15 years									
Asset valuation method:	Market value of assets as determined by the trustee									
Inflation:	3.00%									
Salary increases:	4.50%									
Investment rate of return:	7.50%									
Retirement age:	Attainment of age 57 and completion of 20 years of service									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	Effective July 1, 2015, members hired on or after January 1, 2012, contribute 5% of compensation, plus \$1 per month									

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CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

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

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CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - FIREMEN PENSION PLAN

	2016*	2015	2014	2013	2012	2011	2010	2009	2008	2007
Schedule of City Contributions										
Actuarially determined contribution	\$ 2,550,742	\$ 2,683,110	\$ 2,223,040	\$ 2,245,105	\$ 1,492,988	\$ 1,672,843	\$ 1,136,780	\$ 1,174,242	\$ 1,018,719	\$ 1,044,942
Contributions in relation to the actuarially determined contributions	<u>2,550,742</u>	<u>2,683,110</u>	<u>2,223,040</u>	<u>2,245,105</u>	<u>1,492,989</u>	<u>1,701,818</u>	<u>1,227,791</u>	<u>1,214,739</u>	<u>1,018,719</u>	<u>1,044,942</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ (28,975)</u>	<u>\$ (91,011)</u>	<u>\$ (40,497)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 8,021,606</u>	<u>\$ 6,860,596</u>	<u>\$ 7,065,479</u>							
Contributions as a percentage of covered employee payroll	<u>31.80%</u>	<u>39.11%</u>	<u>31.46%</u>							
Investment Returns										
Annual money-weighted rate of return, net of investment expense	<u>8.75%</u>	<u>0.84%</u>	<u>5.73%</u>							
Methods and assumptions used to determine contribution rate for the year ended December 31, 2016:										
Actuarial valuation date:	January 1, 2015									
Actuarial cost method:	Entry age normal									
Amortization method:	Level dollar closed									
Remaining amortization period:	11 years									
Asset valuation method:	Market value of assets as determined by the trustee									
Inflation:	3.00%									
Salary increases:	4.50%									
Investment rate of return:	7.50%									
Retirement age:	Attainment of age 57 and completion of 20 years of service									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	None since January 1, 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

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

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

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

	2016*	2015	2014	2013	2012	2011	2010	2009	2008	2007
Schedule of City Contributions										
Actuarially determined contribution	\$ -	\$ 698,515	\$ 1,040,430	\$ 1,051,497	\$ 432,314	\$ 455,998	\$ 467,762	\$ 622,663	\$ 379,382	\$ 381,269
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
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ (2,904)	\$ (19,767)	\$ (26,178)	\$ -	\$ (77)
Covered employee payroll	\$ -	\$ -	\$ -							
Contributions as a percentage of covered employee payroll	N/A	N/A	N/A							
Investment Returns										
Annual money-weighted rate of return, net of investment expense	8.75%	0.84%	5.73%							
Methods and assumptions used to determine contribution rate for the year ended December 31, 2016:										
Actuarial valuation date:	January 1, 2015									
Actuarial cost method:	Entry age normal									
Amortization method:	Level dollar closed									
Remaining amortization period:	N/A years									
Asset valuation method:	Market value of assets as determined by the trustee									
Inflation:	3.00%									
Salary increases	4.50%									
Investment rate of return	7.50%									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	None since January 1, 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

	2016*	2015
Total Pension Liability:		
Service cost	\$ 2,610,686	\$ 2,788,823
Interest	7,143,983	6,983,880
Transfers	8,868	408,927
Changes in assumptions	2,482,253	-
Benefit payments, including refunds	(7,502,216)	(7,143,060)
Differences between expected and actual experience	-	425,849
Net Changes in Total Pension Liability	4,743,574	3,464,419
Total Pension Liability - Beginning	130,977,234	127,512,815
Total Pension Liability - Ending (a)	\$ 135,720,808	\$ 130,977,234
Plan Fiduciary Net Position:		
Contributions - employer	\$ 1,118,126	\$ 28,582,658
Contributions - employee	1,539,086	1,625,488
Net investment income	8,161	4,481,780
Transfers	8,868	408,927
Benefit payments, including refunds	(7,502,216)	(7,143,060)
Administrative expense	(301,278)	(229,161)
Net Change in Plan Fiduciary Net Position	(5,129,253)	27,726,632
Plan Fiduciary Net Position - Beginning	126,991,206	99,264,574
Plan Fiduciary Net Position - Ending (b)	\$ 121,861,953	\$ 126,991,206
Net Pension Liability - Ending (a-b)	\$ 13,858,855	\$ 3,986,028
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.79%	96.96%
Covered Employee Payroll	\$ 20,428,871	\$ 20,610,195
Net Pension Liability as a Percentage of Covered Employee Payroll	67.84%	19.34%

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

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2016*	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 1,117,586	\$ 821,609	\$ 4,033,848	\$ 2,939,785	\$ 3,041,355	\$ 3,428,478	\$ 3,349,700	\$ 3,263,683	\$ 3,168,307	\$ 3,168,307
Contributions in relation to the actuarially determined contributions	1,118,126	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
Contribution deficiency (excess)	\$ (540)	\$ (350,500)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 20,428,871	\$ 20,610,195								
Contributions as a percentage of covered employee payroll	5.47%	5.69%								

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

Methods and assumptions used to determine contribution rates:

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

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

	2016*	2015
Total Pension Liability:		
Service cost	\$ 142,903	\$ 158,054
Interest	135,565	131,874
Changes in assumptions	72,908	-
Benefit payments, including refunds	(300,495)	(84,529)
Differences between expected and actual experience	-	162,885
	50,881	368,284
Net Changes in Total Pension Liability		
Total Pension Liability - Beginning	2,470,145	2,101,861
Total Pension Liability - Ending (a)	\$ 2,521,026	\$ 2,470,145
Plan Fiduciary Net Position:		
Contributions - employer	\$ 59,568	\$ 64,369
Contributions - employee	74,413	68,403
Net investment income (loss)	181,173	(98,056)
Benefit payments, including refunds	(300,495)	(84,529)
Administrative expense	(5,984)	(5,978)
	8,675	(55,791)
Net Change in Plan Fiduciary Net Position		
Plan Fiduciary Net Position - Beginning	2,415,420	2,471,211
Plan Fiduciary Net Position - Ending (b)	\$ 2,424,095	\$ 2,415,420
Net Pension Liability - Ending (a-b)	\$ 96,931	\$ 54,725
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.16%	97.78%
Covered Employee Payroll	\$ 992,174	\$ 901,337
Net Pension Liability as a Percentage of Covered Employee Payroll	9.77%	6.07%

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

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

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

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

	2016*	2015
Total Pension Liability:		
Service cost	\$ 22,509	\$ 21,777
Interest	50,385	49,383
Benefit payments, including refunds	(73,458)	(73,458)
Differences between expected and actual experience	-	19,796
Changes in assumptions	24,308	-
Net Changes in Total Pension Liability	23,744	17,498
Total Pension Liability - Beginning	929,828	912,330
Total Pension Liability - Ending (a)	\$ 953,572	\$ 929,828
Plan Fiduciary Net Position:		
Contributions - employer	\$ 27,007	\$ 18,097
Contributions - employee	8,592	8,304
Net investment income	19,218	50,638
Benefit payments, including refunds	(73,458)	(73,458)
Administrative expense	(1,918)	(1,746)
Net Change in Plan Fiduciary Net Position	(20,559)	1,835
Plan Fiduciary Net Position - Beginning	798,373	796,538
Plan Fiduciary Net Position - Ending (b)	\$ 777,814	\$ 798,373
Net Pension Liability - Ending (a-b)	\$ 175,758	\$ 131,455
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.57%	85.86%
Covered Employee Payroll	\$ 156,218	\$ 156,502
Net Pension Liability as a Percentage of Covered Employee Payroll	112.51%	84.00%

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CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF BETHLEHEM REDEVELOPMENT AUTHORITY CONTRIBUTIONS

	2016*	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 27,007	\$ 18,486	\$ 17,598	\$ -	\$ -	\$ -	\$ -	\$ 7,581	\$ 7,194	\$ 4,440
Contributions in relation to the actuarially determined contributions	27,007	18,097	17,598	-	-	-	-	7,581	7,194	4,440
Contribution deficiency (excess)	\$ -	\$ 389	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 156,218	\$ 156,502								
Contributions as a percentage of covered employee payroll	17.29%	11.56%								

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Methods and assumptions used to determine contribution rates:

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

CITY OF BETHLEHEM, PENNSYLVANIA
POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS
YEAR ENDED DECEMBER 31, 2016

SCHEDULE OF FUNDING PROGRESS

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

Supplementary Information

CITY OF BETHLEHEM, PENNSYLVANIA

COMBINING BALANCE SHEET - OTHER NON-MAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2016

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
Assets				
Cash and cash equivalents	\$ 1,341,176	\$ 2,177,408	\$ 483,212	\$ 4,001,796
Receivables:				
Loans	-	1,377,225	-	1,377,225
Other	605,680	-	-	605,680
Due from other governments	-	114,605	-	114,605
Total Assets	\$ 1,946,856	\$ 3,669,238	\$ 483,212	\$ 6,099,306
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and other accrued expenses	\$ 8,204	\$ 117,868	\$ 84,638	\$ 210,710
Accrued payroll	22,189	4,784	-	26,973
Accrued vacation and other compensated absences	16,189	7,853	-	24,042
Unearned revenues	-	3,538,733	-	3,538,733
Total Liabilities	46,582	3,669,238	84,638	3,800,458
Fund Balance:				
Restricted for:				
Public works	-	-	398,574	398,574
Police	1,900,274	-	-	1,900,274
Total Fund Balance	1,900,274	-	398,574	2,298,848
Total Liabilities and Fund Balance	\$ 1,946,856	\$ 3,669,238	\$ 483,212	\$ 6,099,306

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2016

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
Revenues:				
Intergovernmental revenues	\$ 2,448,041	\$ 1,951,945	\$ 1,948,118	\$ 6,348,104
Investment income	4,766	14,160	2,353	21,279
Other	-	216,916	-	216,916
Total revenues	2,452,807	2,183,021	1,950,471	6,586,299
Expenditures:				
Current:				
Public works	-	-	1,945,540	1,945,540
Police	2,478,075	-	-	2,478,075
Program expenditures	-	2,127,643	-	2,127,643
Total expenditures	2,478,075	2,127,643	1,945,540	6,551,258
Excess (Deficiency) of Revenues Over Expenditures	(25,268)	55,378	4,931	35,041
Other Financing Sources (Uses):				
Transfers in	1,055,000	-	38,050	1,093,050
Transfers out	(855,740)	(55,378)	-	(911,118)
Total other financing sources (uses)	199,260	(55,378)	38,050	181,932
Net Change in Fund Balance	173,992	-	42,981	216,973
Fund Balance:				
Beginning of year	1,726,282	-	355,593	2,081,875
End of year	\$ 1,900,274	\$ -	\$ 398,574	\$ 2,298,848