

City of Bethlehem, Pennsylvania

Financial Statements and Supplementary Information

Year Ended December 31, 2018 with
Independent Auditor's Report

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CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2018

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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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*," which requires the City to record its other post-employment benefit liability and related items on the government-wide and proprietary fund financial statements. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the historical pension plan and other post-employment benefit plan information on pages i through xvi, 114 through 115, and 116 through 129, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial

statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
December 17, 2019

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, 2018 and 2017. The City's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow.

Financial Highlights

The City's total net position increased by \$4,815,657 during the year ended December 31, 2018 and decreased by \$682,226 in 2017. The City's financial statements were restated to adopt Governmental Accounting Standards Board (GASB) Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."* More information on the restatement can be found in Note 1 of the financial statements.

In the City's governmental activities, net position increased by \$577,518 in 2018 and decreased by \$367,029 in 2017. In 2018, the increase in net position is the result of increase in real estate taxes due to increase in millage rate and assessed values. In 2017, the decrease in net position is the result of certain capital grants of activity and restatement due to GASB No. 75. This was comprised of \$4.2 million grant revenue for the Lynn Avenue bridge and \$1.0 million for the High Street bridge. For these projects the expenses were capitalized and, therefore, it makes it appear that there were no current expenses for the grant revenue that was recorded. Net position decreased by approximately \$6.7 million due to implementation of GASB No. 75.

In the City's business-type activities, net position increased by \$4,238,139 in 2018 and decreased by \$315,197 in 2017. In 2018, the increase was due to increase in unbilled sewer receivables as a result of increased usage and decreases in water and sewer pension expenses as a result of market conditions recognized in GASB No. 68 actuarial valuations. In 2017, the decrease was due to a reduction in net position of approximately \$1.2 million due to implementation of GASB No. 75. This reduction was partially offset with a sewer rate increase of approximately 10%.

Overview of the Financial Statements

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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

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

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

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

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

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

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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

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

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

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

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

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

Fiduciary Funds

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

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Component Units

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-113 of this report.

Other Information

Required supplementary information can be found on pages 114-129 of this report. The combining statements referred to earlier in connection with governmental fund types are presented immediately following the required supplementary information section. Combining schedules can be found on pages 130-131 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, 2018 by \$53,013,533 and 2017 by \$57,829,190.

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

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

City's Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Totals	
	2018	2017 (Restated)	2018	2017 (Restated)	2018	2017 (Restated)
Current assets	\$ 40,140,656	\$ 39,084,831	\$ 27,985,149	\$ 23,970,149	\$ 68,125,805	\$ 63,054,980
Capital assets	67,218,622	70,303,608	96,326,658	102,147,612	163,545,280	172,451,220
Other assets	1,788,137	2,575,927	16,180,499	15,683,751	17,968,636	18,259,678
Total assets	\$ 109,147,415	\$ 111,964,366	\$ 140,492,306	\$ 141,801,512	\$ 249,639,721	\$ 253,765,878
Deferred outflows of resources	\$ 31,657,268	\$ 24,544,184	\$ 2,390,086	\$ 3,275,278	\$ 34,047,354	\$ 27,819,462
Current liabilities	\$ 17,845,910	\$ 18,931,374	\$ 10,404,658	\$ 10,434,865	\$ 28,250,568	\$ 29,366,239
Noncurrent liabilities	184,809,492	182,242,602	112,347,894	122,781,521	297,157,386	305,024,123
Total liabilities	\$ 202,655,402	\$ 201,173,976	\$ 122,752,552	\$ 133,216,386	\$ 325,407,954	\$ 334,390,362
Deferred inflows of resources	\$ 6,993,667	\$ 4,756,478	\$ 4,298,987	\$ 267,690	\$ 11,292,654	\$ 5,024,168
Net investment in capital assets	\$ 30,757,968	\$ 28,691,416	\$ 2,673,522	\$ 1,698,044	\$ 33,431,490	\$ 30,389,460
Restricted	4,425,932	7,445,988	-	400,833	4,425,932	7,846,821
Unrestricted	(104,028,286)	(105,559,308)	13,157,331	9,493,837	(90,870,955)	(96,065,471)
Total net position (deficit)	\$ (68,844,386)	\$ (69,421,904)	\$ 15,830,853	\$ 11,592,714	\$ (53,013,533)	\$ (57,829,190)

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Capital assets in governmental activities decreased approximately \$3.1 million. This was due to total additions of \$5.8 million offset by \$8.8 million of depreciation expense.

Deferred outflows of resources in governmental activities increased approximately \$7.1 million. This was due to a \$6.9 million increase in deferred outflows of resources for pensions primarily due to the deferral of differences in projected and actual earnings on Police and Firemen's pension plan investments.

Noncurrent liabilities in governmental activities increased approximately \$2.6 million. This was due to debt payments totaling \$5.5 million offset with \$7.9 million increase in net pension liability mainly a result of investment activity recognized in GASB No. 68 actuarial valuations.

Current assets in business-type activities increased approximately \$4.0 million. This was due to an increase in cash in the Sewer Fund. The statement of cash flows on pages 12-13 of the financial statements have further information.

Capital assets in business-type activities decreased approximately \$5.8 million. This was due to total additions of \$3.9 million offset by depreciation expense of \$9.6 million.

Noncurrent liabilities in business-type activities decreased approximately \$10.4 million. This was due to debt payments totaling \$7.7 million, \$2 million of accretion, and \$5.2 million decrease in net pension liability mainly a result of investment activity recognized in GASB No. 68 actuarial valuations.

Deferred inflows of resources in business-type activities increased approximately \$4.0 million. This was primarily due to the deferral of the differences between projected and actual investment earnings in the pension plans.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

City's Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Totals	
	2018	2017 (Restated)	2018	2017 (Restated)	2018	2017 (Restated)
Program revenues:						
Charges for services	\$ 11,804,107	\$ 12,413,870	\$ 41,179,628	\$ 39,667,473	\$ 52,983,735	\$ 52,081,343
Operating grants and contributions	11,615,104	11,595,604	-	-	11,615,104	11,595,604
Capital grants and contributions	465,054	6,230,007	27,075	23,839	492,129	6,253,846
General revenues:						
Taxes	43,436,752	40,455,783	-	-	43,436,752	40,455,783
Investment earnings	459,737	177,710	1,020,926	809,391	1,480,663	987,101
Unrestricted grants	15,436,534	15,325,035	-	-	15,436,534	15,325,035
Total revenues	83,217,288	86,198,009	42,227,629	40,500,703	125,444,917	126,698,712
Expenses:						
General government	804,403	932,305	-	-	804,403	932,305
Administrative	1,165,687	1,416,282	-	-	1,165,687	1,416,282
Community development	6,987,806	8,190,819	-	-	6,987,806	8,190,819
Parks and public property	2,828,177	2,619,603	-	-	2,828,177	2,619,603
Public works	14,405,268	14,043,676	-	-	14,405,268	14,043,676
Police	24,042,620	23,136,441	-	-	24,042,620	23,136,441
Fire	15,866,035	14,761,796	-	-	15,866,035	14,761,796
General expenditures	11,161,566	10,379,537	-	-	11,161,566	10,379,537
Civic	214,976	143,422	-	-	214,976	143,422
Library	1,565,684	1,552,130	-	-	1,565,684	1,552,130
Program expenditures	2,307,896	1,826,180	-	-	2,307,896	1,826,180
Interest on long-term debt	5,024,111	4,923,466	-	-	5,024,111	4,923,466
Water fund	-	-	19,558,390	20,204,788	19,558,390	20,204,788
Sewer fund	-	-	13,338,919	13,893,436	13,338,919	13,893,436
Other non-major fund	-	-	1,357,722	1,444,298	1,357,722	1,444,298
Total expenses	86,374,229	83,925,657	34,255,031	35,542,522	120,629,260	119,468,179
Change in net position before transfers	(3,156,941)	2,272,352	7,972,598	4,958,181	4,815,657	7,230,533
Transfers	3,734,459	4,059,044	(3,734,459)	(4,059,044)	-	-
Change in net position	577,518	6,331,396	4,238,139	899,137	4,815,657	7,230,533
Net position:						
Beginning	(69,421,904)	(69,054,875)	11,592,714	11,907,911	(57,829,190)	(57,146,964)
Adjustment due to implementation of GASB Statement No. 75	-	(6,698,425)	-	(1,214,334)	-	(7,912,759)
Ending	<u>\$ (68,844,386)</u>	<u>\$ (69,421,904)</u>	<u>\$ 15,830,853</u>	<u>\$ 11,592,714</u>	<u>\$ (53,013,533)</u>	<u>\$ (57,829,190)</u>

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Governmental activities. Governmental activities increased the City's net position by \$577,518 for the year ended December 31, 2018. Key elements of this increase are as follows:

- Capital grants and contributions in governmental activities decreased approximately \$5.8 million. This decrease was comprised of \$5.3 million in grant revenue that was recorded in 2017 and not 2018 related to the Lynn Avenue and High Street bridge projects.
- Taxes in governmental activities increased approximately \$3.0 million. This was due to a 2.3% real estate tax increase and a one-time favorable adjustment to earned income taxes of \$1.6 million to eliminate a liability that previously existed and was determined by the City to no longer be due and payable.
- Community development expenses in governmental activities decreased approximately \$1.2 million. This was due to a reduction of pass-through RACP grants of \$800,000.

Business-type activities. Business-type activities increased the City's net position by \$4,238,139 for the year ended December 31, 2018. Key elements of this change are as follows:

- Charges for services in business-type activities increased approximately \$1.5 million. This was due to increase in unbilled sewer receivables as a result of increased usage and a sewer rate increase of approximately 10% that occurred in 2017 but that didn't affect an entire year until 2018. The City also continues to more aggressively replace older meters as part of the water capital program.
- Water Fund expenses in business-type activities decreased approximately \$650,000. This was due to a reduction of GASB No. 68 expense that was recorded in 2018 as a result of market conditions recognized in GASB No. 68 actuarial valuations.
- Sewer Fund expenses in business-type activities decreased approximately \$550,000. This was due to a reduction of GASB No. 68 expense that was recorded in 2018 as a result of market conditions recognized in GASB No. 68 actuarial valuations.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Financial Analysis of the Major Funds

General Fund

Revenues of the General Fund totaled \$74,775,280 for the year ended December 31, 2018. The following represents a summary of General Fund revenue, for the years ended December 31, 2018 and 2017 by source, along with changes from 2017:

	2018	2017	Change From 2017 to 2018	Percentage Change
Taxes	\$ 43,257,618	\$ 40,093,039	\$ 3,164,579	7.89%
Licenses and permits	3,036,539	3,033,586	2,953	0.10%
Intergovernmental revenues	8,742,979	9,444,337	(701,358)	-7.43%
Fines and forfeitures	386,048	378,721	7,327	1.93%
Departmental earnings	6,966,958	7,429,202	(462,244)	-6.22%
Other charges	1,480,756	1,482,268	(1,512)	-0.10%
Municipal recreation	423,234	464,334	(41,100)	-8.85%
Investment income	341,115	112,793	228,322	202.43%
Host fee	9,757,198	9,903,107	(145,909)	-1.47%
Other	382,835	372,931	9,904	2.66%
Total	\$ 74,775,280	\$ 72,714,318	\$ 2,060,962	2.83%

Taxes increased by \$3,164,579 from 2017 to 2018 due to a 2.3% real estate tax increase and a one-time favorable adjustment to earned income taxes of \$1.6 million to eliminate a liability that previously existed and was determined by the City to no longer be due and payable.

Intergovernmental revenues decreased by \$701,358 from 2017 to 2018. The decrease was due to a reduction of RACP funds of \$755,618. These are pass-through funds for the City and the amounts can fluctuate significantly from year to year.

Departmental earnings decreased by \$462,244 from 2017 to 2018. The decrease was due to several line items including a \$290,757 decrease in Ambulance fees, a \$93,681 decrease in the First responder's fee due to delinquent amounts paid in 2017, and an \$82,890 decrease in Special events overtime for police due to a reduction in events for 2018.

Investment income increased by \$228,322 from 2017 to 2018. The increase was due to a larger average daily cash balance and increases to the interest rate from TD Bank.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

General Fund expenditures totaled \$63,895,167 for the year ended December 31, 2018, which represents an increase of \$1,094,112 or 1.74% from 2017. The following represents a summary of General Fund expenditures for the years ended December 31, 2018 and 2017, by function, along with changes from 2017:

	2018	2017	Change From 2017 to 2018	Percentage Change
General government	\$ 794,369	\$ 756,528	\$ 37,841	5.00%
Administrative	1,049,120	1,050,290	(1,170)	-0.11%
Community development	7,306,161	7,786,478	(480,317)	-6.17%
Parks and public property	583,781	687,632	(103,851)	-15.10%
Public works	7,625,712	7,462,670	163,042	2.18%
Police	19,157,444	18,860,054	297,390	1.58%
Fire	13,843,614	13,412,115	431,499	3.22%
General expenditures	10,968,737	10,377,467	591,270	5.70%
Civic	214,976	143,422	71,554	49.89%
Library	1,315,934	1,315,934	-	0.00%
Debt service - principal	881,977	781,148	100,829	12.91%
Debt service - interest	153,342	167,317	(13,975)	-8.35%
Total	\$ 63,895,167	\$ 62,801,055	\$ 1,094,112	1.74%

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

- General expenditures increased by \$591,720 due to an increase in Workmen's compensation of \$303,199 caused by additional claim settlements in 2018. Professional services increased by \$96,433 due to Act 111 police and fire arbitration expenses paid in 2018. The City's insurance package increased \$74,179 due to an increase in the annual premiums.
- Community development decreased by \$480,317 due to a reduction of RACP funds of \$755,618. These are pass-through funds for the City and the amounts can fluctuate significantly from year to year. Department Contracts in the Recycling Bureau increased by \$106,064 due an increase in the curbside recycling contract as well as continued unfavorable market conditions for recyclable materials. Temporary help in the Health Bureau increased by \$99,131 due to several additional grants received in 2018.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

- Fire increased by \$431,499 due to several line items including an increase in equipment purchased of \$105,239 along with increases in salaries of \$90,272, the Fire MMO of \$80,485, and training of \$45,914.

General Fund Budgetary Highlights

The General Fund expenditure budget for fiscal year 2018 was approximately \$74.1 million. This was an increase of \$1.9 million over the previous year amended budget. There were no material amendments to the 2018 budget. Actual expenditures were approximately \$3.9 million less than budgeted. General expenditures were lower than budgeted due to a favorable variance in medical claims and worker's compensation. There were also savings in unforeseen contingency as the Police and Fire labor contracts were not settled as of the end of 2018. Those contracts expired at the end of 2017. Personnel costs saw savings as there were numerous vacant positions throughout the year. Lastly, the Health Bureau budget saw savings as not all of the grant funds were expended in 2018.

Non-Utility Capital Improvements Fund

Due from other funds increased by approximately \$4.5 million. This was due to having cash balances from the General and 9-1-1 Funds transferred over to the Non-Utility Capital Improvements Fund to pay for various capital projects as approved by City Council.

Capital outlays decrease by approximately \$6.0 million. This is due to a decrease in expenditures of \$5.2 million relating to the Lynn Avenue and High Street bridge projects as well as approximately a \$400,000 decrease in the Northampton/Lehigh footbridge project.

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 \$906,000 from 2017, which is based upon debt service maturity schedules.

Other Non-Major Governmental Funds

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

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Pension Trust Fund

At December 31, 2018, the net position - restricted for employees' retirement pension benefits was \$145,477,790. The average interest rate all inclusive with costs of the pension bond is 5.5%. The Fund lost 4.35%, net of fees, in 2018 based upon market activity. The Fund returned an average of 8.07% 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, 2018 amounted to \$67,218,622 and \$96,326,658 (net of accumulated depreciation), respectively. This investment in capital assets includes land and improvements, buildings and improvements, furniture, machinery, equipment, and infrastructure including but not limited to roads, bridges, streetlights, dams, and storm sewer systems.

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

- The City spent \$1,246,113 towards the replacement of trunking system radios.
- The City spent approximately \$1.2 million towards Lynne Ave bridge project.
- The City spent \$547,406 towards the replacement of self-contained breathing apparatus' for the Fire Department.
- The City spent approximately \$1.5 million towards street overlays.
- The City spent \$232,074 towards reconstruction of the Memorial Pool complex.
- The City spent \$190,000 towards police body cameras.

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

- The City spent \$850,021 on the replacement, relocation, or rehabilitation of the water distribution system.
- The City spent \$605,534 on the design and replacement of pumps, motors, isolation and check valves, actuators, and piping at the Southside pump station.
- The City spent \$272,815 to fabricate, remove, and replace WTP flocculator shafts, babbitts, gears, chains, collars, and hubs.
- The City spent \$250,433 on the design and installation of a new solids dewatering facility and to replace belt filter presses.
- The City spent \$174,758 on sewer fund machinery and equipment.

Additional information on the City's capital assets can be found at Note 4 on pages 51-56.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Long-Term Debt

In April of 2019, the City issued \$5,155,000 in debt to pay for certain non-utility projects.

In November of 2019, the City issued \$64,135,000 in debt to refund or advance refund all or a part of the City's Series B of 2011 Notes, Series of 2012 Bonds, Series A of 2013 Bonds, Series B of 2014 Bonds, and Series C of 2014 Bonds.

As of October 24, 2019, the City's net nonelectoral debt of \$93,021,076 is well below the net nonelectoral debt limit of \$210,746,779. Additional information on the City's long-term debt can be found at Note 7 on pages 59-70 of this report.

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

Economic Outlook

In Bethlehem, economic activity on the former Bethlehem Steel Corporation property continues. Wind Creek purchased the Sands Casino in May of 2019 for \$1.4 billion. Moving forward, Wind Creek is planning to invest \$190 million at the site. Projects include a 276-room hotel tower, additional event space, and indoor water and adventure park at Machine Shop No. 2. The projects will further strengthen Bethlehem's position as a destination.

Economic activity of the former Bethlehem Steel Site extends beyond tourism and entertainment. Bethlehem continues to transition vacant brownfield land, into new development, businesses, and job creators in Lehigh Valley Industrial Park VII and Majestic Realty Center in South Bethlehem. In response to the steady demand for e-commerce, QVC announced they will make Bethlehem home for their distribution center. Candlewood Suites, a 101-room hotel represents some of the first development in the industrial park fronting Route 412. RJ Schinner has established operations in the industrial park, Curtiss Wright is expanding, and SunCup has recently located their juice production and bottling operations in a 180,000 square foot building on Easton Road.

The Factory project has additionally repurposed former Bethlehem Steel buildings. The Factory is a team of experienced operators with \$250 million dollars of investable capital, who acquire meaningful equity stakes in high potential food, beverage, and pet health companies, and partner with them, to rapidly build value. The project will bring dozens of new companies to South Bethlehem, with the goal that as accelerator companies located at the Factory grow, they will choose to locate in Bethlehem.

Investment in Bethlehem's downtowns has resulted in the completion of Gateway at Greenway and 510 Flats on Third Street. The Goodman building, once on the brink of demolition, has

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

been stabilized and is now on the verge of complete redevelopment. Brinker Lofts, located at Fourth and Adams Streets, is offering new housing and retail space for our downtown, the first project in the City to utilize the new Opportunity Zone Program. Further, the Banana Factory will undergo a \$15 million reconstruction and expansion.

In 2018, the City experienced a record high \$295 million in new construction investment. Outside of the Sands Casino, this investment exceeded any prior year by almost \$54 million dollars. Further, the estimated construction costs over the last four years exceeded those of the previous four years by \$370 million dollars.

In December 2013, the City was awarded one of three 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. Recent projects include online 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 Bethlehem 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. Future CRIZ development include the \$220 million development at the Martin Tower site.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

The following is a list of other major development projects:

Residential		Status as of October 2019
Evans St. 5-story Apartment Building	3,000,000	Plans Approved
Overlook at Saucon Creek	3,000,000	Under Construction / Portions Complete
Park View Commons - William Street	3,000,000	Under Construction / Portions Complete
Riverview Heights-Edward Street	5,000,000	Under Construction
Saucon Square Condominiums - Fire Lane	3,500,000	Under Construction / Portions Complete
Silk Mill Apartments (Phase 1&2)	13,000,000	Phase II Plans Under Construction
Stever Mills on Creek Rd.	15,000,000	Under Construction / Portions Complete
Villas at Saucon Valley	12,000,000	Under Construction/Portions Complete
Residential Subtotal	57,500,000	
Residential/Senior		
Cottages @ Monocacy Manor	4,500,000	Under Construction/Portions Complete
Turnberry Mews	10,000,000	Under Construction / Portions Complete
Residential / Senior Subtotal	14,500,000	
Institutional		
Lehigh University - Bridge West/68 University Dr.	99,000,000	Under Construction
Lehigh HST (124 E. Morton Street)	112,000,000	Plans Approved
Moravian Village Twin Dwelling/500 Bk. E. Morton St.	4,300,000	Plans Approved
Moravian Village Memory Care Facility/626 Stefko Blvd	20,000,000	Plans Approved
NMIH	26,000,000	Under Construction/Portions Complete
Terrace Homes at Northwood Gardens/2365 Madison Ave.	35,500,000	Under Construction/Portions Complete
Institutional Subtotal	296,800,000	

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

		Status as of October 2019
Mixed-Use		
13 W. Morton Street	1,900,000	Plans Approved
Greenway Commons/422-630 E. Third Street	48,000,000	Under Construction/Portions Complete
Polk Street Parking Garage	16,000,000	Plans Approved
1338 E. Fourth Street	1,500,000	Plans Approved
Brinker Lofts, 321 Adams Street	9,500,000	Under Construction
Webster Place, 202-208 E.3rd St	950,000	Plans Approved
548 N. New Street	8,300,000	Plans Approved
Mixed-Use Subtotal	86,150,000	
Industrial		
LVIP VII LPT Warehouse (lots 3,4,5), 10 Emery	44,000,000	Under Construction / Portions Complete
LVIP VII Lot 12 Spillman Dr (1920 Spillman Drive)	4,000,000	Plans Approved
LVIP VII Lot 13 Spillman Dr (2010 Spillman Drive)	9,702,000	Under Construction / Portions Complete
LVIP VII Lot 81 - 1025 Feather Way	12,000,000	Plans Approved
LVIP VII, Lot 62, 2675 Commerce Center Blvd	10,000,000	Plans Submitted
835 E. North Street	500,000	Plans Approved
Majestic (lots 6, 7) 3905 Commerce Center Blvd	39,650,000	Under Construction
1198 and 2020 Feather Way	23,000,000	Under Construction / Portions Complete
Majestic Lot 3 addition 3419 Commerce Center Blvd.	17,000,000	Under Construction
Industrial Subtotal	159,852,000	
Commercial		
Bethlehem LNG/1475 & 1525 Easton Road	40,000,000	Under Construction
Negrao Preschool and Swim School	10,800,000	Under Construction/Portions Complete
920 Hellertown Road (Dunkin Donuts)	1,100,000	Plans Approved
Sterling Apts - 1620 Catasauqua Road	7,500,000	Under Construction
Commercial Subtotal	59,400,000	
Grand Total	\$ 674,202,000	

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, 2018

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Assets					
Current assets:					
Cash and cash equivalents	\$ 28,329,446	\$ 18,880,050	\$ 47,209,496	\$ 2,130,482	\$ 49,339,978
Investments	39,708	-	39,708	195,772	235,480
Receivables (net of allowance for uncollectibles):					
Taxes	4,318,497	-	4,318,497	-	4,318,497
Accounts	858,574	9,656,612	10,515,186	460,115	10,975,301
Grants	-	-	-	130,698	130,698
Other	1,042,225	-	1,042,225	103,196	1,145,421
Accrued interest	-	8,042	8,042	-	8,042
Due from other governments	4,252,797	-	4,252,797	-	4,252,797
Internal balances	838,092	(838,092)	-	-	-
Inventories	461,317	278,537	739,854	-	739,854
Prepaid expenses	-	-	-	198,561	198,561
Property held for sale	-	-	-	347,000	347,000
Total current assets	40,140,656	27,985,149	68,125,805	3,565,824	71,691,629
Noncurrent assets:					
Loans receivable	1,283,437	-	1,283,437	-	1,283,437
Restricted cash and cash equivalents	-	9,409,044	9,409,044	2,781,294	12,190,338
Restricted investments	-	6,556,903	6,556,903	10,257,493	16,814,396
Capital assets, not being depreciated	7,493,902	3,128,920	10,622,822	2,445,509	13,068,331
Capital assets, net	59,724,720	93,197,738	152,922,458	58,650,093	211,572,551
Other assets	504,700	214,552	719,252	-	719,252
Total noncurrent assets	69,006,759	112,507,157	181,513,916	74,134,389	255,648,305
Total Assets	109,147,415	140,492,306	249,639,721	77,700,213	327,339,934
Deferred Outflows of Resources					
Deferred outflows of resources - pensions	25,290,455	2,187,409	27,477,864	485,950	27,963,814
Deferred outflows of resources - other post-employment benefits	1,413,786	202,677	1,616,463	-	1,616,463
Deferred charge on refunding	4,953,027	-	4,953,027	445,523	5,398,550
Total Deferred Outflows of Resources	31,657,268	2,390,086	34,047,354	931,473	34,978,827

(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	1,652,392	977,467	2,629,859	369,944	2,999,803
Accrued payroll	1,579,542	208,248	1,787,790	43,861	1,831,651
Accrued vacation and other					
compensated absences	957,879	658,995	1,616,874	104,688	1,721,562
Interest payable	707,306	333,165	1,040,471	220,560	1,261,031
Current portion of long-term debt	5,863,000	7,965,842	13,828,842	5,730,000	19,558,842
Current portion of capital lease					
obligations	1,658,332	115,565	1,773,897	-	1,773,897
Current portion of total other					
post-employment benefits liability	657,821	145,376	803,197	-	803,197
Unearned revenue	4,766,422	-	4,766,422	188,775	4,955,197
Escrow liabilities	3,216	-	3,216	352,000	355,216
Total current liabilities	<u>17,845,910</u>	<u>10,404,658</u>	<u>28,250,568</u>	<u>7,009,828</u>	<u>35,260,396</u>
Noncurrent liabilities:					
Accrued vacation and other					
compensated absences, net of					
current portion	3,395,317	-	3,395,317	-	3,395,317
Accrued sick pay	-	162,018	162,018	-	162,018
Long-term debt, net of current					
portion	104,448,518	105,801,995	210,250,513	37,785,212	248,035,725
Capital lease obligation, net of					
current portion	4,133,713	58,350	4,192,063	-	4,192,063
Net pension liability	59,326,695	745,460	60,072,155	307,924	60,380,079
Total other post-employment					
benefits liability	13,505,249	2,411,677	15,916,926	-	15,916,926
Unearned revenue	-	3,168,394	3,168,394	133,332	3,301,726
Total noncurrent liabilities	<u>184,809,492</u>	<u>112,347,894</u>	<u>297,157,386</u>	<u>38,226,468</u>	<u>335,383,854</u>
Total Liabilities	<u>202,655,402</u>	<u>122,752,552</u>	<u>325,407,954</u>	<u>45,236,296</u>	<u>370,644,250</u>
Deferred Inflows of Resources					
Deferred inflows of resources -					
pensions	6,993,667	4,099,247	11,092,914	346,768	11,439,682
Deferred gain on refunding	-	199,740	199,740	-	199,740
Total Deferred Inflows of Resources	<u>6,993,667</u>	<u>4,298,987</u>	<u>11,292,654</u>	<u>346,768</u>	<u>11,639,422</u>
Net Position					
Net investment in capital assets	30,757,968	2,673,522	33,431,490	28,534,757	61,966,247
Restricted	4,425,932	-	4,425,932	1,964,976	6,390,908
Unrestricted	(104,028,286)	13,157,331	(90,870,955)	2,548,889	(88,322,066)
Total Net Position	<u>\$ (68,844,386)</u>	<u>\$ 15,830,853</u>	<u>\$ (53,013,533)</u>	<u>\$ 33,048,622</u>	<u>\$ (19,964,911)</u>

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

<u>Function/Programs:</u>	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 804,403	\$ -	\$ -	\$ -
Administrative	1,165,687	244,302	-	-
Community development	6,987,806	4,429,013	3,804,135	-
Parks and public property	2,828,177	597,572	283,173	35,211
Public works	14,405,268	1,186,642	2,186,489	133,399
Police	24,042,620	2,029,151	2,712,635	-
Fire	15,866,035	3,317,427	14,910	284,591
General expenditures	11,161,566	-	-	-
Civic	214,976	-	-	-
Library	1,565,684	-	-	11,853
Program expenditures	2,307,896	-	2,613,762	-
Interest on long-term debt	5,024,111	-	-	-
Total governmental activities	86,374,229	11,804,107	11,615,104	465,054
Business-type activities:				
Water Fund	19,558,390	21,871,770	-	-
Sewer Fund	13,338,919	18,164,220	-	27,075
Other non-major fund	1,357,722	1,143,638	-	-
Total business-type activities	34,255,031	41,179,628	-	27,075
Total primary government	\$ 120,629,260	\$ 52,983,735	\$ 11,615,104	\$ 492,129
Component units:				
Bethlehem Parking Authority	\$ 6,226,756	\$ 6,348,815	\$ -	\$ 256,886
Bethlehem Public Library	2,960,747	188,505	2,667,089	211,896
Bethlehem Redevelopment Authority	8,885,108	-	164,519	12,730,032
Total component units	\$ 18,072,611	\$ 6,537,320	\$ 2,831,608	\$ 13,198,814

General Revenues:

Real estate taxes and other taxes

Grants and other charges not restricted
to specific programs

Investment income

Transfers

Total general revenues and transfers

Change in Net Position

Net Position:

Beginning of year - restated

End of year

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

Net (Expense) Revenue and
Changes in Net Position

Primary Government			Component Units	Total Reporting Entity
Governmental Activities	Business-Type Activities	Total		
\$ (804,403)	\$ -	\$ (804,403)	\$ -	\$ (804,403)
(921,385)	-	(921,385)	-	(921,385)
1,245,342	-	1,245,342	-	1,245,342
(1,912,221)	-	(1,912,221)	-	(1,912,221)
(10,898,738)	-	(10,898,738)	-	(10,898,738)
(19,300,834)	-	(19,300,834)	-	(19,300,834)
(12,249,107)	-	(12,249,107)	-	(12,249,107)
(11,161,566)	-	(11,161,566)	-	(11,161,566)
(214,976)	-	(214,976)	-	(214,976)
(1,553,831)	-	(1,553,831)	-	(1,553,831)
305,866	-	305,866	-	305,866
(5,024,111)	-	(5,024,111)	-	(5,024,111)
<u>(62,489,964)</u>	<u>-</u>	<u>(62,489,964)</u>	<u>-</u>	<u>(62,489,964)</u>
-	2,313,380	2,313,380	-	2,313,380
-	4,852,376	4,852,376	-	4,852,376
-	(214,084)	(214,084)	-	(214,084)
<u>-</u>	<u>6,951,672</u>	<u>6,951,672</u>	<u>-</u>	<u>6,951,672</u>
<u>(62,489,964)</u>	<u>6,951,672</u>	<u>(55,538,292)</u>	<u>-</u>	<u>(55,538,292)</u>
-	-	-	378,945	378,945
-	-	-	106,743	106,743
-	-	-	4,009,443	4,009,443
<u>-</u>	<u>-</u>	<u>-</u>	<u>4,495,131</u>	<u>4,495,131</u>
43,436,752	-	43,436,752	-	43,436,752
15,436,534	-	15,436,534	-	15,436,534
459,737	1,020,926	1,480,663	(109,696)	1,370,967
3,734,459	(3,734,459)	-	-	-
<u>63,067,482</u>	<u>(2,713,533)</u>	<u>60,353,949</u>	<u>(109,696)</u>	<u>60,244,253</u>
577,518	4,238,139	4,815,657	4,385,435	9,201,092
<u>(69,421,904)</u>	<u>11,592,714</u>	<u>(57,829,190)</u>	<u>28,663,187</u>	<u>(29,166,003)</u>
<u>\$ (68,844,386)</u>	<u>\$ 15,830,853</u>	<u>\$ (53,013,533)</u>	<u>\$ 33,048,622</u>	<u>\$ (19,964,911)</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	<u>General Fund</u>	<u>Non-Utility Capital Improvements Fund</u>	<u>Debt Service Fund</u>	<u>Other Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 17,027,105	\$ 4,209,705	\$ -	\$ 7,039,968	\$ 28,276,778
Investments	-	39,708	-	-	39,708
Receivables:					
Taxes	4,318,497	-	-	-	4,318,497
Accounts	858,574	-	-	-	858,574
Loans	-	-	-	1,283,437	1,283,437
Other	1,038,696	3,529	-	-	1,042,225
Due from other funds	897,500	4,566,500	-	-	5,464,000
Due from other governments	3,224,715	155,000	-	873,082	4,252,797
Total Assets	<u>\$ 27,365,087</u>	<u>\$ 8,974,442</u>	<u>\$ -</u>	<u>\$ 9,196,487</u>	<u>\$ 45,536,016</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance					
Liabilities:					
Accounts payable and other accrued expenses	\$ 701,024	\$ 499,225	\$ -	\$ 321,708	\$ 1,521,957
Accrued payroll	1,538,444	-	-	41,098	1,579,542
Accrued vacation and other compensated absences	925,370	-	-	32,509	957,879
Due to other funds	2,468,000	65,570	-	2,092,338	4,625,908
Escrow liabilities	3,216	-	-	-	3,216
Unearned revenues	192,105	811,247	-	3,763,070	4,766,422
Total Liabilities	<u>5,828,159</u>	<u>1,376,042</u>	<u>-</u>	<u>6,250,723</u>	<u>13,454,924</u>
Deferred Inflows of Resources:					
Unavailable revenue - taxes	2,244,717	-	-	-	2,244,717
Fund Balance:					
Restricted for:					
Parks and public property	954,347	-	-	-	954,347
Community development	235,179	-	-	-	235,179
Debt service	50,305	-	-	-	50,305
Capital projects	-	3,055,400	-	-	3,055,400
Public works	-	-	-	1,028,013	1,028,013
Police	239,266	-	-	1,917,751	2,157,017
Library	1,071	-	-	-	1,071
Assigned for capital projects	3,000,000	4,543,000	-	-	7,543,000
Unassigned	14,812,043	-	-	-	14,812,043
Total Fund Balance	<u>19,292,211</u>	<u>7,598,400</u>	<u>-</u>	<u>2,945,764</u>	<u>29,836,375</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 27,365,087</u>	<u>\$ 8,974,442</u>	<u>\$ -</u>	<u>\$ 9,196,487</u>	<u>\$ 45,536,016</u>

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, 2018

Total Fund Balance - Governmental Funds \$ 29,836,375

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. 67,218,622

Deferred outflows related to pensions 25,290,455

Deferred outflows related to other post-employment benefits 1,413,786

Real estate taxes and earned income taxes not collected within a period of time subsequent to year-end are recognized as revenue in the statement of net position. 2,244,717

Inventory is recorded on the statement of net position. 461,317

Accrued vacation and other compensated absences not due within the next twelve months are recorded on the statement of net position. (3,395,317)

Net pension liability and deferred inflows related to pensions (66,320,362)

Total other post-employment benefits liability is recorded on the statement of net position. (14,163,070)

Prepaid bond insurance and gain on refunding are amortized on the statement of net position. 5,457,727

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, net related discounts and premiums (110,311,518)

Capital leases (5,792,045)

Accrued interest payable is included on the statement of net position. (707,306)

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. (77,767)

Net Position - Governmental Activities \$ (68,844,386)

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, 2018

	General Fund	Non-Utility Capital Improvements Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 43,257,618	\$ -	\$ -	\$ -	\$ 43,257,618
Licenses and permits	3,036,539	-	-	-	3,036,539
Intergovernmental revenues	8,742,979	735,374	-	6,337,424	15,815,777
Fines and forfeitures	386,048	-	-	-	386,048
Departmental earnings	6,966,958	-	-	-	6,966,958
Other charges	1,480,756	-	-	-	1,480,756
Municipal recreation	423,234	-	-	-	423,234
Investment income	341,115	48,063	-	70,559	459,737
Host fee	9,757,198	-	-	-	9,757,198
Other	382,835	304,408	-	849,351	1,536,594
Total revenues	74,775,280	1,087,845	-	7,257,334	83,120,459
Expenditures:					
Current:					
General government	794,369	-	-	-	794,369
Administrative	1,049,120	-	-	-	1,049,120
Community development	7,306,161	-	-	-	7,306,161
Parks and public property	583,781	-	-	-	583,781
Public works	7,625,712	-	-	2,096,839	9,722,551
Police	19,157,444	-	-	2,372,425	21,529,869
Fire	13,843,614	-	-	-	13,843,614
General expenditures	10,968,737	54,492	-	-	11,023,229
Civic	214,976	-	-	-	214,976
Library	1,315,934	-	-	-	1,315,934
Program expenditures	-	-	-	2,626,293	2,626,293
Capital outlays	-	3,761,436	-	-	3,761,436
Debt service - principal	881,977	288,837	5,495,000	-	6,665,814
Debt service - interest	153,342	7,108	4,559,080	-	4,719,530
Total expenditures	63,895,167	4,111,873	10,054,080	7,095,557	85,156,677
Excess (Deficiency) of Revenues Over Expenditures	10,880,113	(3,024,028)	(10,054,080)	161,777	(2,036,218)
Other Financing Sources (Uses):					
Capital lease	499,697	1,362,841	-	-	1,862,538
Transfers in	2,240,582	4,826,785	10,054,080	1,485,000	18,606,447
Transfers out	(12,141,493)	(5,409)	-	(2,725,086)	(14,871,988)
Total other financing sources (uses)	(9,401,214)	6,184,217	10,054,080	(1,240,086)	5,596,997
Net Change in Fund Balance	1,478,899	3,160,189	-	(1,078,309)	3,560,779
Fund Balance:					
Beginning of the year	17,813,312	4,438,211	-	4,024,073	26,275,596
End of the year	\$ 19,292,211	\$ 7,598,400	\$ -	\$ 2,945,764	\$ 29,836,375

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, 2018

Net Change in Fund Balance - Governmental Funds \$ 3,560,779

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 (\$5,854,275) were less than depreciation (\$8,852,485) and loss on disposal (\$86,776) in the current period. (3,084,986)

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. 84,976

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 (1,862,538)
 Repayment of principal 6,665,814

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. 43,201

Change in net pension asset and deferred outflows of resources related to pensions in the statement of activities. 6,157,477

Change in deferred outflows of resources related to other post-employment benefits in the statement of activities. 701,173

Change in inventory in the statement of activities. 128,761

Change in termination benefits in the statement of activities. 111,597

Change in accrued vacation and other compensated absences not due within the next twelve months in the statement of activities. 15,714

Change in net pension liability and deferred inflows of resources related to pensions in the statement of activities. (10,175,625)

Change in other post-employment benefits liability in the statement of activities. (1,282,706)

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. (347,782)

Activities of the internal service fund are reported as net loss within the statement of activities. (138,337)

Change in Net Position - Governmental Activities \$ 577,518

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - PROPRIETARY FUNDS

DECEMBER 31, 2018

Assets and Deferred Outflows of Resources	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Assets:					
Current assets:					
Cash and cash equivalents	\$ 4,970,571	\$ 13,819,673	\$ 89,806	\$ 18,880,050	\$ 52,668
Accounts receivable, net	4,368,204	5,288,408	-	9,656,612	-
Accrued interest	8,042	-	-	8,042	-
Due from other funds	-	55,000	10,570	65,570	-
Inventories	202,634	57,434	18,469	278,537	-
Total current assets	9,549,451	19,220,515	118,845	28,888,811	52,668
Restricted assets:					
Cash and cash equivalents	9,409,044	-	-	9,409,044	-
Investments	6,556,903	-	-	6,556,903	-
Capital assets, not being depreciated	1,351,198	1,494,427	283,295	3,128,920	-
Capital assets, net	68,451,060	24,662,367	84,311	93,197,738	-
Other assets	159,064	49,988	5,500	214,552	-
Total Assets	95,476,720	45,427,297	491,951	141,395,968	52,668
Deferred Outflows of Resources:					
Deferred outflows of resources - pensions	906,763	1,035,154	245,492	2,187,409	-
Deferred outflows of resources - other post-employment benefits	123,667	65,269	13,741	202,677	-
Total Deferred Outflows of Resources	1,030,430	1,100,423	259,233	2,390,086	-
Total Assets and Deferred Outflows of Resources	\$ 96,507,150	\$ 46,527,720	\$ 751,184	\$ 143,786,054	\$ 52,668

(Continued)

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Liabilities, Deferred Inflows of Resources, and Net Position					
Liabilities:					
Current liabilities:					
Accounts payable and other accrued expenses	\$ 133,152	\$ 186,039	\$ 148,282	\$ 467,473	\$ 130,435
Accrued payroll	105,502	94,723	8,023	208,248	-
Accrued vacation and other compensated absences	360,549	263,885	34,561	658,995	-
Construction accounts payable	334,752	175,242	-	509,994	-
Interest payable	262,897	69,505	763	333,165	-
Current portion of long-term debt	6,436,584	1,524,497	4,761	7,965,842	-
Current portion of capital lease obligation	106,904	-	8,661	115,565	-
Current portion of total other post-employment benefits liability	88,704	46,816	9,856	145,376	-
Due to other funds	-	-	903,662	903,662	-
Total current liabilities	7,829,044	2,360,707	1,118,569	11,308,320	130,435
Accrued sick pay	108,358	43,856	9,804	162,018	-
Long-term debt, net	79,900,682	25,775,340	125,973	105,801,995	-
Capital lease obligation, net	58,350	-	-	58,350	-
Net pension liability	310,608	352,023	82,829	745,460	-
Total other post-employment benefits liability	1,471,533	776,641	163,503	2,411,677	-
Unearned revenue	403,200	2,765,194	-	3,168,394	-
Total Liabilities	90,081,775	32,073,761	1,500,678	123,656,214	130,435
Deferred Inflows of Resources:					
Deferred inflows of resources - pensions	1,716,836	1,938,694	443,717	4,099,247	-
Deferred charge on refunding	199,740	-	-	199,740	-
Total Deferred Inflows of Resources	1,916,576	1,938,694	443,717	4,298,987	-
Net Position:					
Net investment in capital assets	(1,109,743)	3,555,054	228,211	2,673,522	-
Unrestricted	5,618,542	8,960,211	(1,421,422)	13,157,331	(77,767)
Total Net Position	4,508,799	12,515,265	(1,193,211)	15,830,853	(77,767)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 96,507,150	\$ 46,527,720	\$ 751,184	\$ 143,786,054	\$ 52,668

(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, 2018

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Operating Revenues:					
Charges for services	\$ 21,200,364	\$ 16,233,510	\$ 1,123,318	\$ 38,557,192	\$ 11,010,897
Operating Expenses:					
Salaries, wages, and fringe benefits	4,210,934	3,955,244	613,735	8,779,913	-
Professional fees	838,888	328,903	3,096	1,170,887	-
Utilities	231,955	604,867	32,267	869,089	-
Maintenance and repairs	127,451	354,197	47,018	528,666	-
Department contracts	395,416	616,148	15,463	1,027,027	-
Supplies	413,342	520,561	124,663	1,058,566	-
Service charges	3,073,558	2,487,564	307,004	5,868,126	-
Depreciation and amortization	5,659,879	3,843,922	142,608	9,646,409	-
Insurance claims	-	-	-	-	11,355,930
Administration	-	-	-	-	22,891
Other	335,144	85,741	33,980	454,865	-
Total operating expenses	15,286,567	12,797,147	1,319,834	29,403,548	11,378,821
Operating Income (Loss)	5,913,797	3,436,363	(196,516)	9,153,644	(367,924)
Non-Operating Revenues (Expenses):					
Investment income	868,414	152,276	236	1,020,926	423
Interest expense	(4,271,823)	(541,772)	(37,888)	(4,851,483)	-
Tapping fees	-	941,445	-	941,445	-
Other revenues	671,406	1,016,340	20,320	1,708,066	229,164
Total non-operating revenues (expenses)	(2,732,003)	1,568,289	(17,332)	(1,181,046)	229,587
Change in net position before transfers	3,181,794	5,004,652	(213,848)	7,972,598	(138,337)
Transfers out	(751,995)	(2,865,441)	(117,023)	(3,734,459)	-
Change in Net Position	2,429,799	2,139,211	(330,871)	4,238,139	(138,337)
Net Position:					
Beginning of year - restated	2,079,000	10,376,054	(862,340)	11,592,714	60,570
End of year	\$ 4,508,799	\$ 12,515,265	\$ (1,193,211)	\$ 15,830,853	\$ (77,767)

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, 2018

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Cash Flows From Operating Activities:					
Receipts from customers	\$ 21,407,628	\$ 16,172,068	\$ 1,117,818	\$ 38,697,514	\$ 11,010,897
Payments to suppliers for services	(5,461,886)	(4,986,689)	(296,798)	(10,745,373)	(11,252,215)
Payment to employees	(4,040,521)	(3,834,339)	(607,275)	(8,482,135)	-
Net cash provided by (used in) operating activities	<u>11,905,221</u>	<u>7,351,040</u>	<u>213,745</u>	<u>19,470,006</u>	<u>(241,318)</u>
Cash Flows From Noncapital Financing Activities:					
Transfers out	(751,995)	(2,865,441)	(117,023)	(3,734,459)	-
Other revenues received	1,074,606	1,016,340	20,320	2,111,266	229,164
Net cash provided by (used in) noncapital financing activities	<u>322,611</u>	<u>(1,849,101)</u>	<u>(96,703)</u>	<u>(1,623,193)</u>	<u>229,164</u>
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(2,909,535)	(1,107,631)	(58,335)	(4,075,501)	-
Principal payments on debt	(6,234,070)	(1,482,605)	-	(7,716,675)	-
Interest payments on debt	(2,816,051)	(545,707)	(37,125)	(3,398,883)	-
Principal payments on capital lease obligations	(129,478)	-	(86,357)	(215,835)	-
Tapping fees	-	941,445	-	941,445	-
Proceeds from issuance of debt	-	523,700	130,734	654,434	-
Net cash used in capital and related financing activities	<u>(12,089,134)</u>	<u>(1,670,798)</u>	<u>(51,083)</u>	<u>(13,811,015)</u>	<u>-</u>
Cash Flows From Investing Activities:					
Net purchase of investments	(658,897)	-	-	(658,897)	-
Interest and dividends on investments	868,414	152,276	236	1,020,926	423
Net cash provided by investing activities	<u>209,517</u>	<u>152,276</u>	<u>236</u>	<u>362,029</u>	<u>423</u>
Net Increase (Decrease) in Cash and Cash Equivalents	348,215	3,983,417	66,195	4,397,827	(11,731)
Cash and Cash Equivalents:					
Beginning of year	14,031,400	9,836,256	23,611	23,891,267	64,399
End of year	<u>\$ 14,379,615</u>	<u>\$ 13,819,673</u>	<u>\$ 89,806</u>	<u>\$ 28,289,094</u>	<u>\$ 52,668</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, 2018

(Continued)

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating income (loss)	\$ 5,913,797	\$ 3,436,363	\$ (196,516)	\$ 9,153,644	\$ (367,924)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	5,659,879	3,843,922	142,608	9,646,409	-
Amortization	(22,257)	(30,722)	(7,708)	(60,687)	-
Changes in balance sheet accounts:					
Accounts receivable	207,264	(364,560)	-	(157,296)	-
Inventories	2,342	23,411	2,072	27,825	-
Net pension asset	167,014	189,282	44,537	400,833	-
Other assets	-	-	(5,500)	(5,500)	-
Deferred outflows of resources - pensions	78,083	95,486	34,945	208,514	-
Deferred outflows of resources - other post-employment benefits liability	(132,408)	(69,882)	(14,712)	(217,002)	-
Accrued vacation and other compensated absences	38,043	800	(17,174)	21,669	-
Accrued payroll	12,277	11,502	(998)	22,781	-
Accounts payable and other accrued expenses	(48,474)	(12,119)	11,068	(49,525)	126,606
Due to other funds	-	-	253,553	253,553	-
Unearned revenue	-	303,118	-	303,118	-
Net pension liability	(2,167,031)	(2,455,968)	(577,875)	(5,200,874)	-
Total OPEB liability	168,641	89,003	18,737	276,381	-
Deferred inflows of resources - pensions	2,028,051	2,291,404	526,708	4,846,163	-
Net cash provided by (used in) operating activities	\$ 11,905,221	\$ 7,351,040	\$ 213,745	\$ 19,470,006	\$ (241,318)
Non-cash Capital and Related Financing Activities:					
Accretion of capital appreciation bonds	\$ 1,970,481	\$ -	\$ -	\$ 1,970,481	\$ -
Issuance of capital lease	\$ 29,818	\$ -	\$ 25,098	\$ 54,916	\$ -

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2018

	Employee Benefit Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 180,534	\$ 1,356,144
Interest and dividends receivable	358,952	-
Investments	144,938,304	-
Total Assets	145,477,790	1,356,144
Liabilities		
Escrow liabilities	-	1,356,144
Total Liabilities	-	\$ 1,356,144
Net Position		
Restricted for employees' retirement benefits	145,477,790	
Total Net Position	\$ 145,477,790	

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, 2018

	Employee Benefit Trust Fund
Additions:	
<hr/>	
Contributions:	
Employee contributions	\$ 1,396,072
Employer contributions	7,183,719
Total contributions	<u>8,579,791</u>
Investment earnings (losses):	
Investment income	2,596,775
Realized and unrealized losses, net	<u>(9,243,918)</u>
Total investment earnings	(6,647,143)
Less investment expense	<u>(710,829)</u>
Net investment earnings (losses)	<u>(7,357,972)</u>
Total additions	<u>1,221,819</u>
Deductions:	
<hr/>	
Benefits paid	12,087,375
Transfer to agent multiple employer plan	1,115,000
Administrative costs	<u>44,135</u>
Total deductions	<u>13,246,510</u>
Change in Net Position	(12,024,691)
Net Position:	
<hr/>	
Beginning of year	<u>157,502,481</u>
End of year	<u><u>\$ 145,477,790</u></u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2018

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority *	Total
Assets and Deferred Outflows of Resources				
<hr/>				
Assets:				
Current assets:				
Cash and cash equivalents	\$ 1,874,319	\$ 173,419	\$ 82,744	\$ 2,130,482
Investments	1,251	194,521	-	195,772
Accounts receivable, net	460,115	-	-	460,115
Grants receivable	130,698	-	-	130,698
Other receivables	56,499	-	46,697	103,196
Prepaid expenses	198,561	-	-	198,561
Property held for sale	-	-	347,000	347,000
Total current assets	2,721,443	367,940	476,441	3,565,824
Restricted cash and cash equivalents	-	-	2,781,294	2,781,294
Restricted investments	830,933	1,779,302	7,647,258	10,257,493
Capital assets, not being depreciated	2,440,509	5,000	-	2,445,509
Capital assets, net	29,548,671	244,665	28,856,757	58,650,093
Total Assets	35,541,556	2,396,907	39,761,750	77,700,213
Deferred Outflows of Resources:				
Deferred outflows of resources - pension	425,318	-	60,632	485,950
Deferred charge on refunding	445,523	-	-	445,523
Total Deferred Outflows of Resources	870,841	-	60,632	931,473
Total Assets and Deferred Outflows of Resources	\$ 36,412,397	\$ 2,396,907	\$39,822,382	\$78,631,686

(Continued)

* - As of June 30, 2018

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
Liabilities, Deferred Inflows of Resources, and Net Position				
Liabilities:				
Accounts payable and other accrued expenses	\$ 251,874	\$ 102,760	\$ 15,310	\$ 369,944
Accrued payroll	25,222	18,639	-	43,861
Accrued vacation and other compensated absences	88,150	16,538	-	104,688
Interest payable	165,222	-	55,338	220,560
Current portion of long-term debt	820,000	-	4,910,000	5,730,000
Unearned revenue	188,775	-	-	188,775
Escrow deposit	-	-	352,000	352,000
Total current liabilities	1,539,243	137,937	5,332,648	7,009,828
Long-term debt, net of current portion	22,740,212	-	15,045,000	37,785,212
Unearned revenue	133,332	-	-	133,332
Net pension liability	218,923	-	89,001	307,924
Total Liabilities	24,631,710	137,937	20,466,649	45,236,296
Deferred Inflows of Resources:				
Deferred inflows of resources - pension	250,978	-	95,790	346,768
Total Deferred Inflows of Resources	250,978	-	95,790	346,768
Net Position:				
Net investment in capital assets	9,406,870	249,665	18,878,222	28,534,757
Restricted	-	1,964,976	-	1,964,976
Unrestricted	2,122,839	44,329	381,721	2,548,889
Total Net Position	11,529,709	2,258,970	19,259,943	33,048,622
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$36,412,397	\$ 2,396,907	\$39,822,382	\$78,631,686

(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, 2018

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	
Bethlehem Parking Authority	\$ 6,226,756	\$ 6,348,815	\$ -	\$ 256,886	\$ 378,945	\$ -	\$ -	\$ 378,945
Bethlehem Public Library	2,960,747	188,505	2,667,089	211,896	-	106,743	-	106,743
Bethlehem Redevelopment Authority *	8,885,108	-	164,519	12,730,032	-	-	4,009,443	4,009,443
Total Component Units	\$ 18,072,611	\$ 6,537,320	\$ 2,831,608	\$ 13,198,814	378,945	106,743	4,009,443	4,495,131
General Revenues:								
					6,630	(157,757)	41,431	(109,696)
					6,630	(157,757)	41,431	(109,696)
					385,575	(51,014)	4,050,874	4,385,435
					11,144,134	2,309,984	15,209,069	28,663,187
					\$ 11,529,709	\$ 2,258,970	\$ 19,259,943	\$ 33,048,622

* - Year ended June 30, 2018

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

1. Summary of Significant Accounting Policies

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

Financial Reporting Entity

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

Basis of Presentation

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

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

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

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

The City reports the following major governmental funds:

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

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

The City reports the following major proprietary funds:

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

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

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

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

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

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Budgetary Accounting Control

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

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

Cash, Cash Equivalents, and Investments

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

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

Internal Balances

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Receivables

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

Property Taxes

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

The schedule for property taxes levied for 2018 is as follows:

January 1, 2018	original levy date
January 1, 2018 - March 30, 2018	2% discount period
March 31, 2018 - May 31, 2018	face payment period
June 1, 2018 - December 31, 2018	10% penalty period

In addition, City taxes may be paid in four installments due approximately February 5, April 9, June 11, and August 13 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 2018 millage was 8.61 for general purposes, 2.67 for public safety, 0.92 for 911, 0.15 for recreation, 3.84 for debt service, 0.55 for landfill debt, and 0.81 for library, for properties in Northampton County; and 2.73 for general purposes, 0.84 for public safety, 0.29 for 911, 0.05 for recreation, 1.21 for debt service, 0.17 for landfill debt, and 0.26 for library, for properties in Lehigh County.

Tax Abatements

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

During the year ended December 31, 2018, the City's LERTA property tax abatements totaled approximately \$1.1 million.

Inventories

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

Interfund Transactions

As a result of its operations, the City affects a variety of transactions between funds to finance operations. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2018, appropriate interfund receivables or payables have been established.

Capital Assets

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

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

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

Parking Authority

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

Redevelopment Authority

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

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

Restricted Investments

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

Bond Discounts, Bond Premiums, and Prepaid Bond Insurance

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

Compensated Absences

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

Unearned Revenues

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Deferred Inflows and Outflows of Resources Related to Pensions and Other Post-Employment Benefits (OPEB)

In conjunction with pension and OPEB 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 and OPEB on the government-wide and proprietary fund financial statements. These amounts are determined based on the actuarial valuations performed for the pension and OPEB plans.

Net Position

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

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Net position of governmental activities is restricted for the following:

Parks and public property	\$	954,347
Community development		235,179
Debt service		50,305
Public works		1,028,013
Police		2,157,017
Library		1,071
Restricted net position	\$	<u>4,425,932</u>

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

Fund Balance

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

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

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

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

be used for the same purpose, assigned fund balance is applied first. Unassigned fund balance is applied last.

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.

Adopted Changes in Accounting Principles

Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," was adopted for the year ended December 31, 2018 by the City. In addition, the City recorded inventory in the governmental activities. As a result of adopting Statement No. 75 and the addition of inventory, the net position of the governmental activities, business-type activities, and proprietary funds were restated.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net position at January 1, 2018 - as originally stated	\$ (62,723,479)	\$ 12,807,048
Remove net other post-employment liability at January 1, 2018	5,136,770	1,066,338
Record total other post-employment benefit liability at January 1, 2018	(12,880,364)	(2,447,779)
Record contributions subsequent to the measurement date at January 1, 2018	712,613	167,107
Record inventory at January 1, 2018	<u>332,556</u>	<u>-</u>
Net position at January 1, 2018 - restated	<u>\$ (69,421,904)</u>	<u>\$ 11,592,714</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Municipal Golf Fund</u>
Net position/fund balance at January 1, 2018 - as originally stated	\$ 2,824,908	\$ 10,758,350	\$ (776,210)
Remove net other post-employment liability at January 1, 2018	645,688	352,158	68,492
Record total other post-employment benefit liability at January 1, 2018	(1,493,560)	(788,268)	(165,951)
Record contributions subsequent to the measurement date at January 1, 2018	<u>101,964</u>	<u>53,814</u>	<u>11,329</u>
Net position at January 1, 2018 - restated	<u>\$ 2,079,000</u>	<u>\$ 10,376,054</u>	<u>\$ (862,340)</u>

Pending Changes in Accounting Principles

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

In May of 2019, the GASB issued Statement No. 91, *“Conduit Debt Obligations.”* This Statement improves financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The provisions of GASB Statement No. 91 are effective for the City’s December 31, 2021 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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018, the Parking Authority made contributions to the City's General Fund of \$525,000. Separate financial statements were issued by the Parking Authority and can be obtained by contacting the Parking Authority.

Bethlehem 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 2018 appropriation to the Library was \$1,315,934, which represented 43% of the Library's General Fund revenue. Title to the assets of the Library rests with the City directly or indirectly through the Board of Directors. The Library's main facility occupies, without charge, premises located in a building owned by the City. During the year ended December 31, 2018, the Library paid the City \$97,535 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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

Related Organizations

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

Bethlehem Housing Authority

The Bethlehem Housing Authority (Housing Authority) has five commissioners who are appointed to staggered, five-year terms by the Mayor with City Council approval. The Housing Authority paid approximately \$279,000 in public safety reimbursements and \$74,000 in lieu of taxes to the City during the year ended December 31, 2018.

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, 2018, BEDCO owes the City \$794,875. There were no payments made on this loan during the year ended December 31, 2018. 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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

of the institution, and such collateral may include loans (including interest in pools of loans) secured by first mortgage liens on real property. Certificates of deposit purchased from commercial banks shall be limited to an amount equal to twenty percent of a bank's total capital and surplus. Certificates of deposit purchased from savings and loan associations or savings banks shall be limited to an amount equal to twenty percent of an institution's assets minus liabilities.

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

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

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

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, 2018, the City's book balance was \$58,155,218 and the bank balance was \$57,849,502. Of the bank balance, \$6,131,414 was covered by federal depository insurance and \$51,718,088 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions

CITY OF BETHLEHEM, PENNSYLVANIA

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were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

Reconciliation to total cash and cash equivalents:	
<u>Governmental activities:</u>	
Unrestricted	\$ 28,329,446
Business-type activities:	
Unrestricted	18,880,050
Restricted	9,409,044
Fiduciary funds:	
Employee benefit trust fund	180,534
Agency fund	1,356,144
Total cash and cash equivalents	<u>\$ 58,155,218</u>

CITY OF BETHLEHEM, PENNSYLVANIA

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B. Investments

The fair value of the investments of the City at December 31, 2018 was as follows:

Investments:	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Money market funds	\$ 20,141,779	\$ 20,141,779	\$ -	\$ -
U.S. Government obligations	13,890,517	13,890,517	-	-
U.S. Government agency obligations	3,427,364	3,427,364	-	-
Municipal bonds	258,582	-	258,582	-
Corporate bonds and notes	11,942,873	-	11,942,873	-
Equity mutual funds:				
Domestic	8,974,365	8,974,365	-	-
International	22,263,512	22,263,512	-	-
Equities:				
Information technology	7,097,073	7,097,073	-	-
Financials	7,796,357	7,796,357	-	-
Consumer staples	4,272,202	4,272,202	-	-
Industrials	6,742,762	6,742,762	-	-
Consumer discretionary	4,222,250	4,222,250	-	-
Health care	5,773,470	5,773,470	-	-
Energy	1,207,863	1,207,863	-	-
Materials	1,565,207	1,565,207	-	-
Telecommunications	4,249,034	4,249,034	-	-
Utilities	747,590	747,590	-	-
Other	692,440	692,440	-	-
Limited partnerships	14,497,025	-	-	14,497,025
Real estate equity fund	8,225,651	-	-	8,225,651
Total investments by fair value level	147,987,916	\$ 113,063,785	\$ 12,201,455	\$ 22,722,676
Investments measured at net asset value:				
External investment pool	1,582,700			
Real estate investment trusts	1,964,299			
Total investments measured at fair value	\$ 151,534,915			

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<u>Reconciliation to total investments</u>	
Governmental activities:	
Unrestricted	\$ 39,708
Business-type activities:	
Restricted	6,556,903
Fiduciary funds:	
Employee Benefit Trust Fund	<u>144,938,304</u>
Total investments	<u>\$ 151,534,915</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, 2018, the City's Employee Benefit Trust Fund was invested in Hamilton Lane Co-Investment Fund III, LP, a limited partnership, in the amount of \$4,181,428. The partnership is a feeder fund in a master-feeder structure whereby the partnership invests all of its assets in Hamilton Lane Co-Investment Fund III Holdings, LP (Holdings). The partnership's investment activities are currently being conducted indirectly through its investment in Holdings, and Holdings' investment activities are currently being conducted indirectly through its investment in Hamilton Lane Co-Investment Fund III Holdings-2 LP (Holdings-2). Holdings-2's investment objective is to achieve substantial capital appreciation through equity and equity-related investments directly in companies alongside leading buyout and growth-capital financial sponsors. In order to estimate fair value, the partnership uses present value and other subjective techniques, which may include references to market multiples, valuations for corresponding investments prepared by the financial sponsor, valuations for comparable companies, public market or private transactions, subsequent developments concerning the companies to which the securities relate, results of operations, financial condition, cash flows, and projections of such companies provided to the general partner and such other factors as the general partner may deem relevant. Income, gains, and losses are generally allocated among the partners in proportion to each partner's contribution to the partnership's total investment capital in the portfolio company investment.

CITY OF BETHLEHEM, PENNSYLVANIA

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At December 31, 2018, the City's Employee Benefit Trust Fund was invested in Hamilton Lane Co-Investment Fund IV, LP, a limited partnership, in the amount of \$1,051,428. The partnership is a feeder fund in a master-feeder structure whereby the partnership invests all of its assets in Hamilton Lane Co-Investment Fund IV 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 IV 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, 2018, the City's Employee Benefit Trust Fund was invested in NB Crossroads Fund XX – Asset Allocation LP, a limited partnership, in the amount of \$8,559,072. The partnership was formed for the purpose of acquiring, holding, selling, and exchanging, either directly or indirectly, interest in limited partnerships or other pooled investment vehicles that are organized to make investments in large-cap buyout, mid-cap buyout, special situations, and venture/growth capital investment funds, as well as securities, including co-investments. The partnership is one of the constituent funds of NB Crossroads Fund XX and invests substantially all of its assets in NBFOF XX – Holdings LP; which in turn invests substantially all of its assets in the NB Master Holding Funds, a group of closed-ended investment partnerships that are formed as series limited partnerships. The Fund generally uses the net asset value (NAV) reported by the investments as a primary input in its valuation; however, adjustments to the reported NAV may be based on various factors, including, but not limited to, the attributes of the interest held, including rights and obligations, any restrictions or illiquidity on such interest, any potential clawbacks by the investments and the fair value of the investments' investment portfolio or other assets and liabilities. The valuation process for investments categorized in Level 3 of the fair value hierarchy is completed on a quarterly basis and is designed to subject the valuation of Level 3 investments to an appropriate level of consistency, oversight, and review. The general

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partner has the ultimate responsibility for the valuation process and the fair value of investments reported its financial statements. The general partner performs initial and ongoing investment monitoring and valuation assessments. In determining the fair value of investments, the General Partner reviews periodic investor reports and interim and annual audited financial statements received from the investments, reviews material quarter over quarter changes in valuation, and assesses the impact of macro market factors on the performance of the investments. Realized and unrealized profits and losses of the partnership are allocated pro rata to the limited partners in proportion to their respective partnership interest.

At December 31, 2018, the City's Employee Benefit Trust Fund was invested in Adams Street Co-Investment Fund IV, LP, a limited partnership, in the amount of \$705,097. The Adams Street Co-Investment Fund IV, LP was formed for the purpose of investing in growth equity and co-investments. A co-investment is generally a minority investment alongside a financial investor, which sources and structures the investment. The investment is typically made through an intermediary vehicle controlled by the sponsor, and therefore, the Fund does not have control of the disposition of the underlying asset. In order to estimate fair value, Level 1 investments of the Fund reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date. For investments of the Fund measured at net asset value: generally, the fair values of investments made through investment vehicles are based on the capital account balances reported by the underlying vehicles subject to management review and adjustment. These capital account balances reflect the fair value of the underlying vehicles' investments. Profits and losses are allocated first to all partners in proportion to their capital commitments. If the Fund is in a cumulative net gain position and the limited partners have received a preferred return of 7% on unreturned capital contributions, 10% of the net gain (excluding short-term investment income) is allocated to the General Partner.

Real estate equity fund

At December 31, 2018, 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 \$8,225,651. 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

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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, 2018, the City held PLGIT/I-Class shares in the amount of \$1,223,589. 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.

At December 31, 2018, the City held PLGIT/PLUS-Class shares in the amount of \$359,111. PLGIT/PLUS-Class shares require a minimum investment of \$50,000, a minimum investment period of thirty days, and has a premature withdrawal penalty. At December 31, 2018, PLGIT carried a AAA rating and had an average maturity of less than one year.

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.

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Real estate investment trusts (REIT)

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

<u>Real Estate Investment Trusts</u>	<u>Fair Value</u>
Agree Realty Corporation	\$ 254,512
AvalonBay Communities	69,620
CBRE Group Inc.	42,042
First Industrial Realty Trust	183,146
Highwoods Properties, Inc.	174,840
Host Hotels and Resorts, Inc.	53,677
Howard Hughes Corporation	167,516
Kimco Realty	54,938
Monmouth Real Estate Investment Corporation	107,520
Newmark Group Inc.	40,483
New Residential Investment Corporation	242,906
Prologis, Inc.	52,848
Rexford Industrial Realty, Inc.	238,177
Stag Industrial	240,540
Weyerhaeuser	41,534
Total real estate investment trusts	<u>\$ 1,964,299</u>

Agree Realty Corporation's focus is on retail properties net leased to industry leading tenants.

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

CBRE Group Inc. focuses on providing services to both occupiers of and investors in real estate and they are the world's largest commercial real estate services and investment firm.

First Industrial Realty Trust is a self-administered and fully integrated real estate company which owns, manages, acquires, sells, develops and redevelops industrial real estate.

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

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

Howard Hughes Corporation operates in three complementary business segments: Operating Assets, MPCs and Strategic Developments.

Kimco Realty owns and operates open-air shopping centers.

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

Newmark Group Inc. focuses on full-service commercial real estate services.

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

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

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

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

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

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

Custodial credit risk. Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The City does not have an investment policy for custodial credit risk. Of the City's investments, \$89,013,452 are held by the counterparty's trust department or agent in the City's name, \$5,013,911 are held by the counterparty's trust department or agent not in the name of the City, and the remaining

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balance of \$57,507,552 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, 2018:

Money market funds	\$ 1,593,370	AAA
Money market funds	18,548,409	Unrated
U.S. Government obligations	6,665,175	AAA
U.S. Government obligations	7,221,347	AA+
U.S. Government obligations	3,995	Unrated
U.S. Government agency obligations	2,543,000	AAA
U.S. Government agency obligations	6,823	AA+
U.S. Government agency obligations	877,541	Not rated
Municipal bonds	127,656	A+
Municipal bonds	130,926	AA-
Corporate bonds and notes	249,428	AA
Corporate bonds and notes	610,163	AA-
Corporate bonds and notes	364,113	A+
Corporate bonds and notes	2,149,524	A
Corporate bonds and notes	2,040,513	A-
Corporate bonds and notes	3,554,392	BBB+
Corporate bonds and notes	2,667,756	BBB
Corporate bonds and notes	306,984	BBB-
External investment pool	1,582,700	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, 2018, 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			
		2019	2020-2024	2025-2029	2030 and beyond
Money market funds	\$ 20,141,779	\$ 20,141,779	\$ -	\$ -	\$ -
U.S. Government obligations	13,890,517	3,727,165	9,907,856	251,501	3,995
U.S. Government agency obligations	3,427,364	2,549,823	877,541	-	-
Municipal bonds	258,582	-	258,582	-	-
Corporate bonds and notes	11,942,873	1,017,515	8,221,760	2,455,303	248,295
External investment pool	1,582,700	1,582,700	-	-	-
	<u>\$ 51,243,815</u>	<u>\$ 29,018,982</u>	<u>\$ 19,265,739</u>	<u>\$ 2,706,804</u>	<u>\$ 252,290</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, 2018, the Parking Authority's book

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balance was \$1,874,319 and the bank balance was \$2,118,612. Of the bank balance at December 31, 2018, \$251,136 was covered by federal depository insurance and \$1,867,476 was collateralized under the Act No. 72, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

B. Investments

The Parking Authority's money market funds are considered Level 1 based on quoted market prices. The fair value of the Parking Authority's money market funds at December 31, 2018 was \$830,933.

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

At December 31, 2018, the Parking Authority had \$1,251 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.

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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, 2018, 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, 2018, the investments of the Parking Authority have an average weighted maturity of less than one year.

Library

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

A. Deposits

Custodial credit risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of December 31, 2018, the Library's book balance was \$173,419 and the bank balance was \$174,286. 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, 2018 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 672,532
Corporate bonds	24,826
Equities	<u>1,276,465</u>
Total investments	<u>\$ 1,973,823</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

CITY OF BETHLEHEM, PENNSYLVANIA

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equities are held by the financial institution, not in the Library's name. The Library's remaining investments are not exposed to custodial credit risk, because they are not evidenced by securities in book entry or paper form.

Credit risk – The Library does not have a formal policy that would limit its investment choices with regard to credit risk. The Library's investments had the following level of exposure to credit risk as of December 31, 2018:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 672,532	Unrated
Corporate bonds	24,826	A-

Concentration of credit risk – The Library places no limit on the amount the Library may invest in any one issuer. At December 31, 2018, 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:

	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>2019</u>	<u>2020-2024</u>
Money market funds	\$ 672,532	\$ 672,532	\$ -
Corporate bonds	24,826	-	24,826
 Total	 <u>\$ 697,358</u>	 <u>\$ 672,532</u>	 <u>\$ 24,826</u>

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Redevelopment Authority

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

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

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

A. Deposits

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

As of June 30, 2018, the Redevelopment Authority's book balance was \$2,864,038 and the bank balance was \$2,904,654. Of the bank balance at June 30, 2018, \$123,485 was covered by federal depository insurance and \$2,781,169 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.

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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, 2018 was \$7,647,258.

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, 2018, the Redevelopment Authority was not exposed to custodial credit risk, because the investments held by the Redevelopment Authority are not evidenced by securities in book entry or paper form.

Credit risk - The Redevelopment Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Redevelopment Authority's money market funds were rated AAA as of June 30, 2018.

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, 2018 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:

	January 1, 2018	Additions and Transfers In	Disposals and Transfers Out	December 31, 2018
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,752,780	\$ -	\$ -	\$ 6,752,780
Construction in progress	5,766,929	562,007	(5,587,814)	741,122
Total capital assets not being depreciated	12,519,709	562,007	(5,587,814)	7,493,902
Capital assets being depreciated:				
Buildings and related improvements	33,546,815	128,190	-	33,675,005
Improvements other than buildings	49,507,383	359,657	-	49,867,040
Furniture, machinery, and equipment	46,426,767	3,061,026	(747,315)	48,740,478
Infrastructure	51,229,844	7,331,209	-	58,561,053
Total capital assets being depreciated	180,710,809	10,880,082	(747,315)	190,843,576
Less accumulated depreciation for:				
Buildings and related improvements	(27,890,709)	(1,055,969)	-	(28,946,678)
Improvements other than buildings	(37,384,456)	(1,643,142)	-	(39,027,598)
Furniture, machinery, and equipment	(36,079,022)	(2,829,987)	660,539	(38,248,470)
Infrastructure	(21,572,723)	(3,323,387)	-	(24,896,110)
Total accumulated depreciation	(122,926,910)	(8,852,485)	660,539	(131,118,856)
Total capital assets being depreciated, net	57,783,899	2,027,597	(86,776)	59,724,720
Governmental activities capital assets, net	\$ 70,303,608	\$ 2,589,604	\$ (5,674,590)	\$ 67,218,622

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

	January 1, 2018	Additions and Transfers In	Disposals and Transfers Out	December 31, 2018
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,124,842	\$ -	\$ -	\$ 2,124,842
Construction in progress	767,833	520,860	(284,615)	1,004,078
Total capital assets not being depreciated	2,892,675	520,860	(284,615)	3,128,920
Capital assets being depreciated:				
Land improvements	1,100,349	-	-	1,100,349
Building and fixtures	13,969,074	70,650	-	14,039,724
Improvements other than buildings	240,648,749	3,068,729	-	243,717,478
Furniture, machinery, and equipment	4,852,712	319,166	-	5,171,878
Vehicles	5,386,099	206,899	(127,212)	5,465,786
Office equipment	108,753	39,803	-	148,556
Total capital assets being depreciated	266,065,736	3,705,247	(127,212)	269,643,771
Less accumulated depreciation for:				
Land improvements	(1,072,162)	(25,998)	-	(1,098,160)
Building and fixtures	(13,265,439)	(119,772)	-	(13,385,211)
Improvements other than buildings	(143,498,763)	(9,104,813)	-	(152,603,576)
Furniture, machinery, and equipment	(4,525,271)	(122,684)	-	(4,647,955)
Vehicles	(4,340,411)	(262,319)	3,209	(4,599,521)
Office equipment	(108,753)	(2,857)	-	(111,610)
Total accumulated depreciation	(166,810,799)	(9,638,443)	3,209	(176,446,033)
Total capital assets being depreciated, net	99,254,937	(5,933,196)	(124,003)	93,197,738
Business-type activities capital assets, net	\$ 102,147,612	\$ (5,412,336)	\$ (408,618)	\$ 96,326,658

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Depreciation expense was charged to governmental activities as follows:

Administrative	\$ 80,363
Community development	105,391
Parks and public property	1,859,906
Public works	4,624,482
Police	1,264,482
Fire	668,111
Library	249,750
	<u>\$ 8,852,485</u>

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

Water Fund	\$ 5,659,879
Sewer Fund	3,835,956
Municipal Golf Fund	142,608
	<u>\$ 9,638,443</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

	January 1, 2018	Additions	Disposals	December 31, 2018
Parking Authority:				
Capital assets, not being depreciated:				
Land	\$ 1,852,044	\$ -	\$ -	\$ 1,852,044
Construction in progress	16,331,702	529,856	(16,273,093)	588,465
Total capital assets, not being depreciated	18,183,746	529,856	(16,273,093)	2,440,509
Capital assets, being depreciated:				
Parking garages	27,614,704	17,394,319	-	45,009,023
Furniture and fixtures	1,870,701	255,211	(197,330)	1,928,582
Automobiles	608,429	34,692	(27,739)	615,382
Leasehold and parking lot improvements	26,245	4,955	-	31,200
Total capital assets, being depreciated	30,120,079	17,689,177	(225,069)	47,584,187
Less accumulated depreciation	(16,919,280)	(1,347,395)	231,159	(18,035,516)
Total capital assets, being depreciated, net	13,200,799	16,341,782	6,090	29,548,671
Total capital assets, net	\$ 31,384,545	\$ 16,871,638	\$ (16,267,003)	\$ 31,989,180

During the year ended December 31, 2018, the Parking Authority incurred \$239,573 in interest expense, excluding capitalized interest of \$303,690.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

	January 1, 2018	Additions	Disposals	December 31, 2018
Library:				
Capital assets, not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Total capital assets, not being depreciated	5,000	-	-	5,000
Capital assets, being depreciated:				
Buildings and related improvements	311,677	-	-	311,677
Furniture, machinery, and equipment	859,558	5,000	-	864,558
Total capital assets, being depreciated	1,171,235	5,000	-	1,176,235
Less accumulated depreciation	(867,629)	(63,941)	-	(931,570)
Total capital assets, being depreciated, net	303,606	(58,941)	-	244,665
Total capital assets, net	\$ 308,606	\$ (58,941)	\$ -	\$ 249,665

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

	July 1, 2017	Additions	Disposals	June 30, 2018
Redevelopment Authority:				
Capital assets, not being depreciated:				
Construction in progress	\$ 941,381	\$ -	\$ (941,381)	\$ -
Total capital assets, not being depreciated	941,381	-	(941,381)	-
Capital assets, being depreciated:				
Buildings	31,267,155	-	-	31,267,155
Total capital assets, being depreciated	31,267,155	-	-	31,267,155
Less accumulated depreciation	(1,765,273)	(645,125)	-	(2,410,398)
Total capital assets, being depreciated, net	29,501,882	(645,125)	-	28,856,757
Total capital assets, net	\$ 30,443,263	\$ (645,125)	\$ (941,381)	\$ 28,856,757

As of June 30, 2017, the Redevelopment Authority had incurred \$941,381 for the initial stages of construction of a parking garage. During the year ended June 30, 2018, the Parking Authority assumed responsibility for the parking garage project and, therefore, all costs were transferred from the Redevelopment Authority to the Parking Authority.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

5. Interfund Receivable and Payables Balances

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2018 is as follows:

	Due From Other Funds	Due To Other Funds
Governmental funds:		
General Fund	\$ 897,500	\$ 2,468,000
Non-Utility Capital Improvements Fund	4,566,500	65,570
Other Non-Major Governmental Funds	-	2,092,338
Proprietary funds:		
Sewer Fund	55,000	-
Other Non-Major Enterprise Fund	10,570	903,662
Total	<u>\$ 5,529,570</u>	<u>\$ 5,529,570</u>

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 Non-Utility Capital Improvements Fund from the General Fund and the 911 Fund (an other non-major governmental fund) are to fulfill budgetary transfer requirements.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

6. Interfund Transfers

Interfund transfers for the year ended December 31, 2018 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ 2,240,582	\$ 12,141,493
Non-Utility Capital Improvements Fund	4,826,785	5,409
Debt Service Fund	10,054,080	-
Other Non-Major Governmental Funds	1,485,000	2,725,086
Proprietary funds:		
Water Fund	-	751,995
Sewer Fund	-	2,865,441
Other Non-Major Enterprise Fund	-	117,023
Total	<u>\$ 18,606,447</u>	<u>\$ 18,606,447</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, 2018

7. Long-Term Obligations

Bonds and Notes Payable

A summary of long-term bonds and notes payable of the City at December 31, 2018 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	Golf Fund	
Outstanding at beginning of year	\$ 114,522,000	\$ 87,204,109	\$ 28,308,690	\$ -	\$ 115,512,799
Issuance of debt	-	-	523,700	130,734	654,434
Accretion of capital appreciation bonds	-	1,970,481	-	-	1,970,481
Repayment of debt	(5,495,000)	(6,234,070)	(1,482,605)	-	(7,716,675)
	109,027,000	82,940,520	27,349,785	130,734	110,421,039
Plus unamortized bond premium	1,558,190	3,396,746	44,071	-	3,440,817
Less unamortized bond discount	(273,672)	-	(94,019)	-	(94,019)
Outstanding at end of year	<u>\$ 110,311,518</u>	<u>\$ 86,337,266</u>	<u>\$ 27,299,837</u>	<u>\$ 130,734</u>	<u>\$ 113,767,837</u>

	Discretely Presented Component Units	
	Parking Authority	Redevelopment Authority
Outstanding at beginning of year	\$ 25,487,093	\$ 25,550,702
Issuance of debt	2,410,988	84,298
Repayment of debt	(4,114,456)	(5,680,000)
	23,783,625	19,955,000
Plus unamortized bond premium	33,199	-
Less unamortized bond discount	(256,612)	-
Outstanding at end of year	<u>\$ 23,560,212</u>	<u>\$ 19,955,000</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Year	Governmental Activities			Water Fund		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 5,863,000	\$ 4,415,376	\$ 10,278,376	\$ 6,436,584	\$ 2,086,228	\$ 8,522,812
2020	6,587,000	4,243,097	10,830,097	6,620,009	1,899,555	8,519,564
2021	6,786,000	4,022,042	10,808,042	6,819,964	1,698,799	8,518,763
2022	7,051,000	3,761,664	10,812,664	5,978,680	2,542,754	8,521,434
2023	6,950,000	3,491,472	10,441,472	5,673,092	2,846,408	8,519,500
2024-2028	38,230,000	13,167,172	51,397,172	24,747,191	17,860,785	42,607,976
2029-2033	33,325,000	5,504,768	38,829,768	26,665,000	2,781,300	29,446,300
2034	4,235,000	210,131	4,445,131	-	-	-
Totals	\$ 109,027,000	\$ 38,815,722	\$ 147,842,722	\$ 82,940,520	\$ 31,715,829	\$ 114,656,349

Year	Sewer Fund			Golf Fund		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 1,524,497	\$ 598,086	\$ 2,122,583	\$ 4,761	\$ 4,957	\$ 9,718
2020	1,540,699	604,126	2,144,825	4,761	4,410	9,171
2021	1,426,376	596,302	2,022,678	5,127	4,242	9,369
2022	1,450,217	596,307	2,046,524	5,127	4,064	9,191
2023	1,486,720	558,079	2,044,799	5,127	3,884	9,011
2024-2028	8,055,806	2,171,789	10,227,595	29,661	16,508	46,169
2029-2033	8,731,962	1,043,080	9,775,042	34,790	10,972	45,762
2034-2038	3,133,508	163,133	3,296,641	41,380	4,433	45,813
Totals	\$ 27,349,785	\$ 6,330,902	\$ 33,680,687	\$ 130,734	\$ 53,470	\$ 184,204

Year	Parking Authority			Fiscal Year	Redevelopment Authority		
	Principal	Interest	Total		Principal	Interest *	Total
2019	\$ 820,000	\$ 659,815	\$ 1,479,815	2019	\$ 4,910,000	\$ 804,527	\$ 5,714,527
2020	1,200,000	638,228	1,838,228	2020	15,045,000	580,009	15,625,009
2021	1,513,625	613,871	2,127,496				
2022	990,000	578,331	1,568,331				
2023	1,015,000	553,717	1,568,717				
2024-2028	5,505,000	2,352,455	7,857,455				
2029-2033	3,890,000	1,619,618	5,509,618				
2034-2038	3,010,000	1,152,450	4,162,450				
2039-2043	3,485,000	673,350	4,158,350				
2044-2046	2,355,000	142,800	2,497,800				
Totals	\$ 23,783,625	\$ 8,984,635	\$ 32,768,260		\$ 19,955,000	\$ 1,384,536	\$ 21,339,536

* - Interest due on the Tax Increment Revenue Bonds, Series of 2010, is based on the maximum rate of 6% through maturity.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Total principal and interest for the primary government due through maturity is \$296,363,962.

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

During the year ended December 31, 2017, the City funded the outstanding balance of the City's Series A of 2011 Bonds and the outstanding balance of the Bethlehem Authority's Series A of 2011 Bonds by irrevocably placing in trust, direct obligations of the United States of America sufficient to satisfy the semi-annual interest payments and bond redemption requirements. These bonds are considered to be extinguished for financial reporting purposes and are excluded from the City's financial statements. The balance outstanding on the advance refunded portions of the City's Series A of 2011 Bonds and Bethlehem Authority's Series A of 2011 Bonds at December 31, 2018 was \$7,860,000 and \$17,015,000, respectively.

The City has guaranteed the Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2014 for the Bethlehem Authority, a blended component unit of the City. The full amount of the Guaranteed Parking System Revenue Bonds, Series A of 2015, Series B of 2015, Series A of 2016, and Series B of 2016, issued by the Parking Authority, are guaranteed by the City for the full term of the bonds. The reimbursement obligation of the Parking Authority to the City for payments made under the Guaranty Agreement shall be subordinate to debt service payments on the bonds, reimbursement to and rights of the bond insurer, and replenishment of the debt service reserve account. The City's legal authority and limits for extending the guarantees and types of obligations guaranteed is pursuant to the provisions of the Pennsylvania Local Government Unit Debt Act. The guarantees extend through the year ending December 31, 2046 and have a total amount outstanding at December 31, 2018 of \$67,330,000. The City was not required to make any payments in accordance with the guarantee agreements during the year ended December 31, 2018.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Long-term obligations payable at December 31, 2018 are as follows:

Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2018</u>
General Obligation Bonds, Series A of 2005, due in annual installments of \$15,000 to \$20,000 through October 2020; interest rates vary from 3.70% to 4.00%.	\$ 20,000	\$ 40,000
General Obligation Notes, Series of 2007, due in annual installments of \$273,000 to \$356,000 through August 2022; interest rates fixed at 3.65% through August 2017 and variable through maturity. The interest rate at December 31, 2018 is 1.09925%.	328,000	1,367,000
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%.	1,415,000	2,240,000
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	6,770,000
General Obligation Bonds, Series A of 2013, due in annual installments of \$115,000 to \$380,000 through October 2033; interest rates vary from 0.70% to 3.50%.	250,000	4,580,000
Federally Taxable General Obligation Refunding Notes, Series B of 2013, due in annual installments of \$20,000 to \$840,000 through October 2026; interest rates vary from 1.688% to 4.643%.	640,000	5,845,000
General Obligation Notes, Series A of 2014, due in annual installments of \$5,000 to \$630,000 through October 2024; interest rates vary from 0.75% to 4.00%.	250,000	1,590,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Governmental Activities:	Current Portion	Balance at December 31, 2018
General Obligation Bonds, Series B of 2014, due in annual installments of \$175,000 to \$1,740,000 through November 2034; interest rates vary from 0.80% to 5.146%.	1,025,000	21,225,000
General Obligation Bonds, Series C of 2014, due in annual installments of \$1,025,000 to \$2,035,000 through November 2034; interest rates vary from 0.80% to 5.146%.	1,085,000	23,580,000
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%.	35,000	5,155,000
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%.	330,000	2,090,000
General Obligation Bonds, Series A of 2017, due in annual installments of \$185,000 to \$1,960,000 through December 2032; interest rates vary from 1.15% to 3.25%.	190,000	10,475,000
General Obligation Bonds, Series B of 2017, due in annual installments of \$35,000 to \$460,000 through December 2034; interest rates vary from 2.00% to 4.00%.	125,000	5,520,000
General Obligation Bonds, Series D of 2017, due in annual installments of \$40,000 to \$165,000 through December 2020; interest rates vary from 1.687% to 2.342%.	160,000	325,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2018</u>
General Obligation Bonds, Series E of 2017, due in annual installments of \$5,000 to \$3,230,000 through December 2028; interest rates vary from 0.80% to 5.00%.	<u>5,000</u>	<u>18,225,000</u>
Total Governmental Activities	<u>\$ 5,863,000</u>	<u>\$ 109,027,000</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Business-Type Activities: Water Fund:	<u>Current Portion</u>	<u>Balance at December 31, 2018</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%.	\$ 1,302,584	\$ 38,584,520
General Obligation Note, Series of 2007, due in annual installments of \$41,000 to \$69,000 through August 2022; interest rates fixed at 3.65% through August 2017 and variable through maturity. The interest rate at December 31, 2018 is 1.09925%.	64,000	266,000
Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2014, due in annual installments of \$15,000 to \$7,625,000 through November 15, 2032; interest rates vary from 2.00% to 5.00%.	<u>5,070,000</u>	<u>44,090,000</u>
Total Water Fund	<u>6,436,584</u>	<u>82,940,520</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%.	120,000	245,000
General Obligation Bonds, Series of 2012, due in annual installments of \$285,000 to \$430,000 through October 1, 2032; interest rates vary from 0.650% to 3.375%.	305,000	5,030,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Business-Type Activities:	Current	Balance at
Sewer Fund:	<u>Portion</u>	<u>December 31, 2018</u>
2012 Pennvest loan payable in monthly installments of \$45,546, including interest at 1.51% through April 2019, followed by monthly installments of \$50,697, including interest at 3.018% through April 2034.	401,974	7,433,503
2013 Pennvest loan payable in monthly installments vary from \$416 to \$49,379, including interest at 1.00% through July 2021, followed by monthly installments of \$52,122, including interest at 1.743% through July 2036.	497,523	9,516,282
General Obligation Bonds, Series C of 2017, due in annual installments of \$5,000 to \$360,000 through December 2037; interest rates vary from 2.00% to 4.00%.	<u>200,000</u>	<u>5,125,000</u>
Total Sewer Fund	<u>1,524,497</u>	<u>27,349,785</u>
Golf Fund:		
General Obligation Note, Series C of 2018, due in annual installments of \$4,761 to \$8,788 through November 2038; including interest at 3.5%.	<u>4,761</u>	<u>130,734</u>
Total Business-Type Activities	<u><u>\$ 7,965,842</u></u>	<u><u>\$ 110,421,039</u></u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Component Units: Parking Authority:	<u>Current Portion</u>	<u>Balance at December 31, 2018</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.	\$ 100,000	\$ 360,000
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.	715,000	7,470,000
Guaranteed Parking System Revenue Bonds, Series A of 2016, due in annual installments of \$5,000 to \$440,000, maturing in October 2025. Interest rates range from 1.442% to 3.025%. Secured by future revenues of the Parking Authority.	5,000	2,270,000
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
2018 Promissory Note, maturing April 30, 2021, in the amount of \$600,000. Interest rate of 2.75%. Note is secured by revenue, receipts, and money derived from or in connection with the parking system of the Parking Authority	-	543,625
Total Parking Authority	<u>\$ 820,000</u>	<u>\$ 23,783,625</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Commonwealth related to the Polk Street Garage. At December 31, 2018, no funds had been drawn down on this Note.

In April 2018, the Authority entered into a Grant Anticipation Note, Series of 2018, in the amount of \$1,000,000. Commencing on December 1, 2018, semi-annual payments of interest only are due December 1st and June 1st of each year. One final payment of outstanding principal and interest is due on or before April 30, 2021. The interest rate is fixed at 2.75%. The Note is secured by proceeds of a grant from the Commonwealth related to the Polk Street Garage. At December 31, 2018, no funds had been drawn down on this Note.

Redevelopment Authority:	<u>Current Portion</u>	<u>Balance at June 30, 2018</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 are variable with a 6.0% cap but not less than 2.8%.	\$ 2,460,000	\$ 10,755,000
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%.	1,515,000	5,720,000
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%.	490,000	1,855,000
TIF Bonds, Series of 2015, due in annual installments, amortizing over approximately 5 years, with final maturity to occur on or before June 1, 2020; interest rate at 2.65%.	<u>445,000</u>	<u>1,625,000</u>
Total Redevelopment Authority	<u>\$ 4,910,000</u>	<u>\$ 19,955,000</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Other Changes in Long-Term Debt

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

	Balance January 1, 2018	Additions	Reductions	Balance December 31, 2018
Governmental activities:				
Accrued vacation and other compensated absences	\$ 4,250,641	\$ 102,555	\$ -	\$ 4,353,196
Capital leases	5,100,321	1,862,538	(1,170,814)	5,792,045
	<u>\$ 9,350,962</u>	<u>\$ 1,965,093</u>	<u>\$ (1,170,814)</u>	<u>\$ 10,145,241</u>
Business-type activities:				
Accrued vacation and other compensated absences	\$ 799,344	\$ -	\$ (140,349)	\$ 658,995
Capital leases	334,834	54,916	(215,835)	173,915
	<u>\$ 1,134,178</u>	<u>\$ 54,916</u>	<u>\$ (356,184)</u>	<u>\$ 832,910</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, 2018, the net book value of the equipment and vehicles held under capital leases and included in capital assets was \$6,284,612 for governmental activities and \$377,292 for business-type activities.

CITY OF BETHLEHEM, PENNSYLVANIA

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As of December 31, 2018, future minimum payments were as follows:

Year	Governmental Activities	Business-Type Activities
2019	\$ 1,826,124	\$ 120,019
2020	902,823	59,958
2021	1,327,732	-
2022	759,488	-
2023	785,044	-
2024-2026	756,761	-
Total commitment under capital leases	6,357,972	179,977
Less amount representing interest	565,927	6,062
Present value of future minimum lease payments	5,792,045	173,915
Less current portion	1,658,332	115,565
Long-term portion	\$ 4,133,713	\$ 58,350

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

8. Pension Plans

Plan Descriptions and Administration

The City has two single-employer defined benefit plans covering Police and Firemen. 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 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 and Firemen Retirement Boards. Benefit provisions and their amendments are authorized by the separate Pension Boards for the Police and Firemen. Contributions to the plans are governed by ordinances and collective bargaining agreements. These plans do not issue separate reports.

The City previously had a single-employer benefit plan covering certain non-uniform employees known as the Officers' and Employees' Pension Plan (O&E). The O&E plan was closed for eligibility as of January 1, 1964 and was replaced by the Pennsylvania Municipal Retirement System (PMRS) plan noted below. The O&E plan was still active for those retirees who were participants prior to January 1, 1964 and elected not to transfer to PMRS. During the year ended December 31, 2017, the City purchased annuities for all retired O&E members. The City is no longer responsible for meeting the retirement obligations for these members. The insurance company is obligated to pay the remaining retirement benefits for these retired O&E members. During the year ended December 31, 2018, the remaining assets of the O&E plan were transferred to the PMRS plan.

The City participates in a pension plan administered by the 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.

CITY OF BETHLEHEM, PENNSYLVANIA

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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.

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, 2018

The combining information as of the year ended December 31, 2018 for the plans is as follows:

	Police Pension Fund	Firemen Pension Fund	Officers' and Employees' Pension Fund	Employee Benefit Trust Fund Total
Assets				
Cash and cash equivalents	\$ 104,725	\$ 75,809	\$ -	\$ 180,534
Interest and dividends receivable	205,297	153,655	-	358,952
Investments	84,076,680	60,861,624	-	144,938,304
Total Assets	\$ 84,386,702	\$ 61,091,088	\$ -	\$ 145,477,790
Net Position				
Restricted for employees' retirement benefits	\$ 84,386,702	\$ 61,091,088	\$ -	\$ 145,477,790
Total Net Position	\$ 84,386,702	\$ 61,091,088	\$ -	\$ 145,477,790
Additions:				
Employee contributions	\$ 775,370	\$ 620,702	\$ -	\$ 1,396,072
Employer contributions	4,515,210	2,668,509	-	7,183,719
Investment income	1,494,756	1,088,063	13,956	2,596,775
Realized and unrealized gains (losses), net	(5,357,132)	(3,887,148)	362	(9,243,918)
Investment expense	(404,627)	(293,678)	(12,524)	(710,829)
Total additions	1,023,577	196,448	1,794	1,221,819
Deductions:				
Benefits paid	7,222,763	4,864,612	-	12,087,375
Transfer to agent multiple employer plan	-	-	1,115,000	1,115,000
Administrative costs	21,952	21,965	218	44,135
Total deductions	7,244,715	4,886,577	1,115,218	13,246,510
Change in Net Position	(6,221,138)	(4,690,129)	(1,113,424)	(12,024,691)
Net Position:				
Beginning of year	90,607,840	65,781,217	1,113,424	157,502,481
End of year	\$ 84,386,702	\$ 61,091,088	\$ -	\$ 145,477,790

CITY OF BETHLEHEM, PENNSYLVANIA

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Plan Memberships

Membership related to the Police and Firemen Plans at December 31, 2018 and membership related to the PMRS Plan at December 31, 2016 consisted of the following:

	Police	Firemen	PMRS
	All Full-time Members of the Police Force	All Full-time Members of the Fire Department	All Full-time Employees Not Previously Covered
<u>Covered Employees</u>			
Inactive plan members or beneficiaries currently receiving benefits	179	123	333
Inactive plan members entitled to but not yet receiving benefits	-	-	8
Active plan members	145	104	309
Total	324	227	650

Benefit Provisions – Police

Members Hired Before January 1, 2012

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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

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

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

Members Hired On or After January 1, 2012

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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

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

Benefit Provisions – Firemen

Members Hired Before October 24, 2011

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

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

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YEAR ENDED DECEMBER 31, 2018

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

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

Deferred Retirement Option Plan (DROP) Benefit – An active member who has attained age 57 and completed 20 years of vesting service may elect to participate in the deferred retirement option plan for a period of not more than 36 months. The member’s monthly pension shall be calculated as of the member’s date of participation in the DROP and shall be accumulated with 3.0% annual interest, compounded monthly, and distributed in a lump sum at retirement. As of December 31, 2018, there were zero participants in the DROP. As of December 31, 2018, the balance held by the Firemen Plan for the DROP totaled \$0.

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

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

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

Benefit Provisions – 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.

Contributions

Pennsylvania Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act of the Commonwealth (as amended) (Act 205), requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the plans’ biennial actuarial valuation. According to Act 205, actuarial valuations may be made biennially and the most recent valuations for all of the City’s plans were completed as of January 1, 2017. The MMO includes the normal cost, estimated administrative expenses and an amortization of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10 percent of the excess (if any) of the actuarial value of

CITY OF BETHLEHEM, PENNSYLVANIA

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assets over the actuarial accrued liability. The state provides an allocation of funds that must be used for pension funding. Any financial requirements established by the MMO which exceed state and member contributions must be funded by the employer.

Police and firemen are required to contribute 7% and 8% of covered payroll, respectively, plus \$1 per month to their respective pension plans. Effective July 1, 2015, police hired on or after January 1, 2012 contribute 5% of covered payroll, plus \$1 per month. The PMRS plan requires contributions of 7.5% of covered payroll.

During the year ended December 31, 2018, the City made its annual required contribution of \$4,515,210 and \$2,668,509 for the City's Police and Firemen Plans, respectively. During the year ended December 31, 2017, the City contributed its annual required contribution of \$1,181,609 for the City's PMRS plan. The MMO for the year ended December 31, 2017 was \$1,181,049. During the year ended December 31, 2018, the City contributed its annual required contribution of \$1,195,583 for the City's PMRS plan. In addition, during the year ended December 31, 2018, the City transferred the remaining assets of the O&E plan to the PMRS plan in the amount of \$1,115,000. The 2018 contribution and transfer are reported as deferred outflows of resources at December 31, 2018.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Changes in Net Pension Liability - Police

The changes in the net pension liability for the City for the year ended December 31, 2018 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2017	\$ 117,262,507	\$ 90,607,840	\$ 26,654,667
Changes for the year:			
Service cost	2,209,414	-	2,209,414
Interest	8,689,540	-	8,689,540
Contributions - employer	-	4,515,210	(4,515,210)
Contributions - employees	-	775,370	(775,370)
Net investment loss	-	(4,267,003)	4,267,003
Benefit payments, including refunds	(7,222,763)	(7,222,763)	-
Administrative expense	-	(21,952)	21,952
Net changes	3,676,191	(6,221,138)	9,897,329
Balances at December 31, 2018	\$ 120,938,698	\$ 84,386,702	\$ 36,551,996
Plan fiduciary net position as a percentage of the total pension liability			69.8%

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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, 2018 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2017	\$ 79,943,550	\$ 65,781,217	\$ 14,162,333
Changes for the year:			
Service cost	1,534,859	-	1,534,859
Interest	5,926,728	-	5,926,728
Contributions - employer	-	2,668,509	(2,668,509)
Contributions - employees	-	620,702	(620,702)
Net investment loss	-	(3,092,763)	3,092,763
Benefit payments, including refunds	(4,864,612)	(4,864,612)	-
Administrative expense	-	(21,965)	21,965
Net changes	2,596,975	(4,690,129)	7,287,104
Balances at December 31, 2018	\$ 82,540,525	\$ 61,091,088	\$ 21,449,437
Plan fiduciary net position as a percentage of the total pension liability			74.0%

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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, 2018 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2017	\$ -	\$ 1,113,424	\$ (1,113,424)
Changes for the year:			
Net investment income	-	1,794	(1,794)
Transfer to agent multiple employer plan	-	(1,115,000)	1,115,000
Administrative expense	-	(218)	218
Net changes	-	(1,113,424)	1,113,424
Balances at December 31, 2018	\$ -	\$ -	\$ -
Plan fiduciary net position as a percentage of the total pension liability			N/A

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Changes in Net Pension Liability - PMRS

The changes in the net pension liability for the City for the year ended December 31, 2018 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2017 (based on the measurement date of December 31, 2016)	\$ 144,046,339	\$ 127,528,746	\$ 16,517,593
Changes for the year:			
Service cost	2,563,555	-	2,563,555
Interest	7,483,384	-	7,483,384
Contributions - employer	-	1,181,609	(1,181,609)
Contributions - employees	-	1,621,913	(1,621,913)
Net investment income	-	22,018,223	(22,018,223)
Transfers	72,665	72,665	-
Benefit payments, including refunds	(8,316,599)	(8,316,599)	-
Administrative expense	-	(327,935)	327,935
Net changes	1,803,005	16,249,876	(14,446,871)
Balances at December 31, 2018 (based on the measurement date of December 31, 2017)	\$ 145,849,344	\$ 143,778,622	\$ 2,070,722
Plan fiduciary net position as a percentage of the total pension liability			98.6%

The net pension liability of the PMRS plan is allocated between governmental activities and business-type activities in the amounts of \$1,325,262 and \$745,460, respectively, at December 31, 2018.

CITY OF BETHLEHEM, PENNSYLVANIA

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Actuarial Assumptions – Police and Firemen

The net pension liability was measured as of December 31, 2018 and was determined by rolling forward liabilities from the January 1, 2017 actuarial valuation. The January 1, 2017 actuarial valuations for the Police and Firemen Plans utilized the entry age normal cost method. The actuarial assumptions for the two City Plans included (a) investment rate of return of 7.5%, (b) projected salary increases of 4.5% per year, (c) inflation component of 3.0%, and (d) IRS 2017 Static Combined Table for Small Plans. 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, 2017 with liabilities rolled forward to December 31, 2017, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:

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

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

Preretirement mortality:

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

Postretirement mortality:

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

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NOTES TO FINANCIAL STATEMENTS

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Investment Policy – Police and Firemen

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

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

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

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

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

Long-Term Expected Rate of Return – Police and Firemen

The long-term expected rates of return on the Police and Firemen 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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YEAR ENDED DECEMBER 31, 2018

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the Police and Firemen Plans as of December 31, 2018 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	34.0%	5.5% - 7.5%
International equity	14.0%	4.5% - 6.5%
Fixed income	30.0%	1.0% - 3.0%
Real estate	10.0%	5.5% - 7.5%
Alternative investments	12.0%	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 7.3%. The rationale for the difference between the System's long-term expected rate of return and the discount rate can be found at www.pMrs.state.pa.us.

Rate of Return - The money-weighted rate of return expresses investment performance, net of investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2018, the annual money-weighted rate of return on Police and Firemen Plan investments, net of investment expense, was negative 4.35%.

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, 2018, the City does not hold more than five percent of each individual Plans' investments in any one issuer.

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2018

Discount Rate – Police and Firemen

The discount rate used to measure the total pension liability for the Police and Firemen Plans as of December 31, 2018 was 7.5%. The Plans' fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Act 205. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

Discount Rate – PMRS

The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2017 was 5.25%. The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System's long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Sensitivity of the Net Pension Liability (Asset) Changes in the Discount Rate – The following presents the net pension liability (asset) of the Police, Firemen, 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	\$ 51,796,611	\$ 36,551,996	\$ 23,826,931
Firemen	\$ 31,343,923	\$ 21,449,437	\$ 13,090,387
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
PMRS	\$ 18,883,350	\$ 2,070,722	\$ (12,186,484)

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

For the year ended December 31, 2018, the City recognized pension expense of \$11,967,263 in the governmental activities and \$609,811 in the business-type activities.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

At December 31, 2018, the City reported deferred outflows of resources related to pensions from the following sources:

	Governmental Activities	Business-Type Activities
Deferred Outflows of Resources:		
Net difference between projected and actual earnings on pension plan investments	\$ 10,795,832	\$ -
Differences between expected and actual experience	8,339,208	365,266
Changes in assumptions	4,676,419	990,556
Transfer of assets - O&E plan to PMRS	713,600	401,400
City contributions subsequent to the measurement date	765,396	430,187
Total deferred outflows of resources	\$ 25,290,455	\$ 2,187,409
Deferred Inflows of Resources:		
Net difference between projected and actual earnings on pension plan investments	\$ 6,993,667	\$ 4,099,247
Total deferred inflows of resources	\$ 6,993,667	\$ 4,099,247

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2018

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 and the transfer of assets from the O&E plan to the PMRS plan will be recorded as a reduction to the pension liability during the year ending December 31, 2019. 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>
2019	\$ 5,448,348	\$ (65,816)
2020	3,446,850	(214,734)
2021	1,538,995	(1,350,839)
2022	3,864,229	(1,112,036)
2023	1,837,896	-
Thereafter	681,474	-
	<u>\$ 16,817,792</u>	<u>\$ (2,743,425)</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, 2018, the Library paid \$165,444 to PMRS on behalf of the City for the sixth of the ten payments. Alternatively, the Library offers a 457(b) plan to all remaining and new employees.

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2018

Parking Authority

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

Prior to January 1, 2013, the Parking Authority participated in the City's PMRS plan. Based on an actuarial calculation, the City transferred approximately \$2.3 million in cash and investments from its pension plan to the Parking Authority's plan during the year ended December 31, 2013. The Parking Authority will pay the City \$188,592 per year for ten years as part of a verbal agreement to assist the City in meeting unfunded pension plan obligations on retired or fully vested Parking Authority employees. During the year ended December 31, 2018, the Parking Authority paid \$188,592 to PMRS on behalf of the City for the sixth of the ten payments.

Redevelopment Authority

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

Benefit Provisions

Parking Authority

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

All full-time employees hired prior to January 1, 2018 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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

voluntarily leaves. The benefit will be actuarially reduced for each year or partial year prior to normal retirement age that early retirement takes place.

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

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

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

Redevelopment Authority

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

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

The plan provides retirement, disability, and death benefits to plan members and their beneficiaries as outlined in the plan document.

Plan Membership

Parking Authority

Membership of the Parking Authority's pension plan consisted of the following at the most recent actuarial valuation date of December 31, 2017:

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

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2018

Redevelopment Authority

Membership of the Redevelopment Authority's pension plan consisted of the following at the most recent actuarial valuation date of January 1, 2017:

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, 2017, the Parking Authority made a contribution of \$67,090. The MMO for the year ended December 31, 2017 was \$66,979. During the year ended December 31, 2018, the Parking Authority made a contribution of \$68,231. The MMO for the year ended December 31, 2018 was \$68,231. The 2018 contribution is reported as a deferred outflow of resources at December 31, 2018.

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, 2017 was \$30,522. During the year ended June 30, 2017, the Redevelopment Authority made a contribution to the Redevelopment Authority pension plan in the amount of \$29,754. The MMO for the year ended December 31, 2018 was \$30,415. During the year ended June 30, 2018, the Redevelopment Authority made a contribution to the Redevelopment Authority pension plan in the amount of \$30,442.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2017 (based on the measurement date of December 31, 2016)	\$ 3,156,403	\$ 2,673,925	\$ 482,478
Changes for the year:			
Service cost	140,452	-	140,452
Interest	169,771	-	169,771
Contributions - employer	-	67,090	(67,090)
Contributions - employees	-	72,673	(72,673)
Net investment income	-	441,283	(441,283)
Benefit payments, including refunds	(127,881)	(127,881)	-
Administrative expense	-	(7,268)	7,268
Net changes	182,342	445,897	(263,555)
Balances at December 31, 2018 (based on the measurement date of December 31, 2017)	\$ 3,338,745	\$ 3,119,822	\$ 218,923
Plan fiduciary net position as a percentage of the total pension liability			93.4%

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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 to Changes in the Discount Rate – The following presents the net pension liability (asset) of the Parking Authority pension plan calculated using the discount rates described above, as well as what the Parking Authority pension plan’s net pension liability 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:

<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
<u>\$ 635,446</u>	<u>\$ 218,923</u>	<u>\$ (133,317)</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Redevelopment Authority

The changes in the net pension liability of the Redevelopment Authority for the year ended June 30, 2018 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2017 (based on the measurement date of December 31, 2016)	\$ 1,018,434	\$ 823,099	\$ 195,335
Changes for the year:			
Service cost	23,589	-	23,589
Interest	52,803	-	52,803
Contributions - employer	-	30,522	(30,522)
Contributions - employees	-	9,125	(9,125)
Net investment income	-	145,234	(145,234)
Benefit payments, including refunds	(73,458)	(73,458)	-
Administrative expense	-	(2,155)	2,155
Net changes	2,934	109,268	(106,334)
Balances at June 30, 2018 (based on the measurement date of December 31, 2017)	\$ 1,021,368	\$ 932,367	\$ 89,001
Plan fiduciary net position as a percentage of the total pension liability			91.3%

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 (Asset) to Changes in the Discount Rate – The following presents the net pension liability (asset) 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 (asset) would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rates:

1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
\$ 198,231	\$ 89,001	\$ (4,920)

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

Parking Authority

For the year ended December 31, 2018, the Parking Authority recognized pension expense of \$191,719.

At December 31, 2018, the Parking Authority reported deferred outflows and inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 267,543	\$ -
Parking Authority contributions subsequent to the measurement date	68,231	-
Changes in assumptions	89,544	-
Net difference between projected and actual earnings on pension plan investments	-	250,978
Total	\$ 425,318	\$ 250,978

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NOTES TO FINANCIAL STATEMENTS

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The differences in the Parking Authority’s expected and actual experience and changes in assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Parking Authority contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending December 31, 2019. 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>	
2019	\$ 91,888
2020	45,063
2021	28,417
2022	<u>(59,259)</u>
	<u>\$ 106,109</u>

Redevelopment Authority

For the year ended June 30, 2018, the Redevelopment Authority recognized pension expense of \$27,010.

At June 30, 2018, the Redevelopment Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,369	\$ -
Changes in assumptions	18,452	-
Redevelopment Authority contributions subsequent to the measurement date	22,811	-
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>95,790</u>
Total	<u>\$ 60,632</u>	<u>\$ 95,790</u>

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2018

The differences in the Redevelopment Authority's expected and actual experience and change in assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Redevelopment Authority contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	
2019	\$ (2,682)
2020	(7,213)
2021	(27,965)
2022	<u>(20,109)</u>
	<u>\$ (57,969)</u>

Defined Contribution Pension Plan

For all employees hired after January 1, 2018, the Parking Authority administers a single-employer defined contribution plan, in which all eligible, full-time employees may elect to participate. The plan provisions are established and may be amended by the Parking Authority through the collective bargaining process. According to the 2018 to 2020 union contract, the Parking Authority will contribute 4% of each employees' wages and employees will contribute 3.5% of their wages. Vesting will occur 20% in year three and an additional 20% per year, until fully vested in year 7. An active participant must work a minimum of 1,950 hours during the plan year in order to receive an employer contribution.

9. Post-Employment Benefits Other Than Pensions

Plan Descriptions

In addition to pension benefits described in Note 8, the City provides certain post-retirement healthcare benefits to its retirees through one single-employer, defined benefit OPEB plan. However, within this one plan, there are three groups of employees with different types of benefits. The plan does not issue a separate report. No assets are accumulated in a trust for the OPEB plan.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Police:

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

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

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

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

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

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

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

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

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

Non-uniformed union and non-union employees:

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

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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.

Plan Membership

As of January 1, 2018, the latest actuarial valuation date, the OPEB plan membership was as follows:

	Police	Firefighters	Non-Uniformed Union	Non-Uniformed Non-Union	Total
Active plan members	100	77	145	86	408
Inactive plan members entitled to, but not yet receiving benefits	-	-	-	-	-
Inactive plan members or beneficiaries currently receiving benefits	114	88	123	115	440
Total	214	165	268	201	848

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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Contributions

The City's contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2018, the City contributed \$803,197 to the OPEB plan.

Changes in Total OPEB Liability

The changes in total OPEB liability of the City for the year ended December 31, 2018 were as follows:

	<u>Total OPEB Liability</u>
Service cost	\$ 678,935
Interest	576,183
Differences between expected and actual experience	292,245
Changes in assumptions	724,337
Benefit payments	<u>(879,720)</u>
Net changes	1,391,980
OPEB Liability at December 31, 2017 (based on the measurement date of December 31, 2016)	<u>15,328,143</u>
OPEB Liability at December 31, 2018 (based on the measurement date of December 31, 2017)	<u>\$ 16,720,123</u>

The total OPEB liability is allocated between the governmental activities and business-type activities in the amounts of \$14,163,070 and \$2,557,053, respectively, at December 31, 2018.

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

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2018

limitations on the pattern of cost sharing between the employer and plan members in the future.

The total OPEB liability was determined by an actuarial valuation performed on January 1, 2018 and measured at December 31, 2017, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Interest rate of return	3.16%
Projected salary increases	4.50%
Healthcare cost trend rates	6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later
Mortality	IRS 2017 Static Combined Table for Small Plans
Actuarial value of assets	Not applicable

Changes in Actuarial Assumptions

The interest rate changed from 4.50% in the January 1, 2016 actuarial valuation to 3.16% in the January 1, 2018 actuarial valuation. In addition, the healthcare cost trend rates and mortality tables were updated.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.16%. The discount rate was based on the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA or higher. Since the OPEB Plan has insufficient assets to meet projected benefit payments, the municipal bond rate was applied to all periods of the projected benefit payments to determine the total OPEB liability. The projection of cash flows used to determine the single discount rate for each measurement period assumed that employer contributions will be made based on the current funding policy for future years.

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Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City calculated using the discount rate described above, as well as what the City's total OPEB 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 rate:

	1% Decrease (2.16%)	Current Discount Rate (3.16%)	1% Increase (4.16%)
Total OPEB Liability	<u>\$ 18,020,543</u>	<u>\$ 16,720,123</u>	<u>\$ 15,514,779</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City calculated using the healthcare cost trend rates described above, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current rates:

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB Liability	<u>\$ 15,421,910</u>	<u>\$ 16,720,123</u>	<u>\$ 18,242,842</u>

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended December 31, 2018, the City recognized OPEB expense of \$1,239,354 in the governmental activities and \$219,080 in business-type activities.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

At December 31, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

	Governmental Activities	Business-Type Activities
Changes in assumptions	\$ 503,947	\$ 75,525
Differences between expected and actual experience	252,018	(18,224)
Payments subsequent to the measurement date	657,821	145,376
Total	\$ 1,413,786	\$ 202,677

The differences in the City's change in assumptions and expected and actual experience are recognized over the average expected remaining service lives of active and inactive members. City contributions subsequent to the measurement date will be recorded as a decrease to the total OPEB liability during the year ending December 31, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending December 31,	Governmental Activities	Business-Type Activities
2019	\$ 188,991	\$ 14,325
2020	188,991	14,325
2021	188,991	14,325
2022	188,992	14,326
	\$ 755,965	\$ 57,301

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 \$231,602 to the plan during 2018. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 2018. 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 approximately \$1.5 million at December 31, 2018. Subsequent to year-end, the City entered into construction contracts for approximately \$18 million.

At December 31, 2018, the Library has construction commitments in the amount of approximately \$300,000.

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

created by the Project for payment of the debt service on the TIF Bonds and loans. The outstanding principal amount of the TIF Bonds and loans is approximately \$19.955 million at June 30, 2018. During the year ended December 31, 2018, City tax revenues collected and remitted directly to the TIF were approximately \$1.46 million.

ArtsQuest Lease

During the year ended June 30, 2011, the Redevelopment Authority entered into a lease agreement with ArtsQuest. The Redevelopment Authority has leased to ArtsQuest certain property, including the Levitt Pavilion, the Bethlehem Landing Building, and the Improved Plazas. The initial term of the lease expires on June 1, 2020, unless terminated earlier. The initial term can be extended for one additional 10-year term upon written agreement by both parties. If the initial term is extended for an additional 10-year renewal period, the lease is then subject to two additional 10-year renewals, which will automatically renew unless one party provides a written termination notice to the other at least one year in advance of the applicable 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 was to automatically remain in full force and effect for four additional one-year terms unless either party gave the other party notice of intent to terminate. After July 1, 2015, the rent was \$3,600 per year, which was due and payable by September 30 of the year to which it applies. All rental payments were to be credited toward the purchase price of \$272,000, if and when the Redevelopment Authority or the City elected to purchase the property. The Redevelopment Authority was responsible for payment of all utilities and other payments provided under the rental agreement.

During the year ended June 30, 2017, the Redevelopment Authority elected to purchase the property and entered into an agreement to sell the property for the purchase price of \$347,000. The Redevelopment Authority anticipated closing on both sales simultaneously. During the year ended June 30, 2018, the Redevelopment Authority purchased the property from the Commonwealth and received an advance on the sale from the developer in the

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

amount of \$347,000; however, settlement of the property to the developer did not occur until August 2018. Therefore, \$347,000 is shown as the fair value of the property held for sale and as an escrow deposit on the balance sheet/statement of net position.

The Redevelopment Authority's property held for sale is considered Level 3 and is based on subsequent sale price.

In September 2017, the Redevelopment Authority approved the expenditure of \$800,000 in TIF funding for eligible site development and site remediation expenses and that payments for the work will be made in three annual installments as follows: \$300,000 in September 2017, \$350,000 in July 2018, and \$150,000 in July 2019. In August 2018, the final two installments were amended as follows: \$250,000 in August 2018 and \$250,000 in July 2019.

12. Compliance

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

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

13. 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 2018. 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, 2018

14. Negative Net Position

Municipal Golf Fund

The Municipal Golf Fund had a deficit net position of \$1,193,211 at December 31, 2018. In 2018, the City came to an agreement with SEIU to eliminate three union positions from the golf course in order to improve financial performance. A non-union position was also eliminated. These eliminations are occurring at various points through March 31, 2019; therefore, the full effect will not be realized until 2019. The City also renegotiated the lease with the restaurant at the golf course for 2019. Annual lease payments will increase by approximately \$45,000 in 2019.

15. 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/statement of net position. At June 30, 2018, the conduit debt balance outstanding is \$6,272,657.

16. Subsequent Events

In April 2019, the City issued General Obligation Bonds, Series of 2019 (Series of 2019 Bonds), in the amount of \$5,155,000. The proceeds of the Series of 2019 Bonds will be used for 1) various capital projects of the City related to non-utility projects consisting of renovations, upgrades and improvements to various public safety projects and public works projects including traffic light signaling and safety improvements, street overlays, bridge repairs, storm sewer improvements, various heating, ventilation, and air conditioning replacements and improvements, improvements to various recreation and park facilities and various other facilities, equipment upgrades, technology upgrades and replacements and other necessary capital improvement projects of the city; 2) fund capitalized interest;

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

and 3) to pay the costs and expenses related to the issuance of the bonds. Payments are due through 2034 and interest rates range from 2.00% to 3.00% percent.

In November 2019, the City issued General Obligation Bonds, Series A of 2019 (Series A of 2019 Bonds), in the amount of \$55,090,000 and General Obligation Bonds, Series AA of 2019 (Series AA of 2019 Bonds), in the amount of \$9,045,000. The proceeds of the Series A of 2019 Bonds will be used for 1) advance refund the City's Series B of 2011 Notes; 2) advance refund a portion of the City's Series B of 2014 Bonds; 3) advance refund the City's Series C of 2014 Bonds; and 4) to pay the costs and expenses related to the issuance of the bonds. The proceeds of the Series AA of 2019 Bonds will be used for 1) refund the City's Series of 2012 Bonds; 2) refund the City's Series A of 2013 Bonds; and 3) to pay the costs and expenses related to the issuance of the bonds. Payments on the Series A of 2019 Bonds are due through 2034 and interest rates range from 1.89% to 3.04% percent and payments on the Series AA of 2019 Bonds are due through 2033 and interest rates range from 2.37% to 4.00% percent.

In February 2019, the City approved the sale of 911 equipment and the transfer of 911 services to Northampton County. The total purchase price of \$1,367,000 will be paid over four years by the County. The net book value of 911 equipment to be transferred approximates \$586,400.

Parking Authority

In October 2018, the Parking Authority and Sands Bethworks Retail, LLC entered into an agreement for the Parking Authority to purchase real estate property totaling \$2,100,000 for construction of a parking garage. Settlement of the property purchase took place on April 30, 2019.

In September 2019, the Parking Authority entered into a Loan Agreement in the amount of \$2,550,000 for capital repairs and property acquisition. Commencing on December 1, 2019, semi-annual payments of interest only are due June 1st and December 1st of each year. Commencing on December 1, 2020, annual principal payments are due in ten successive annual installments. The entire remaining principal amount is to be paid in full on December 1, 2029. The interest rate is fixed at 3.4% through September 30, 2026. Commencing on October 1, 2026 and thereafter, the interest rate is equivalent to 81% of the New York Prime Rate; however, the rate will not exceed 5% during the term of the loan. The Loan is secured by revenue, receipts, and money derived from or in connection with the parking system of the Parking Authority.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

In September 2019, the Parking Authority purchased real estate property totaling \$750,000 for construction of a parking garage.

In September 2019, the Parking Authority entered into a construction contract for capital repairs in the amount of \$1,416,000.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 41,465,859	\$ 41,465,859	\$ 41,497,500	\$ 31,641
Licenses and permits	2,903,800	2,903,800	3,072,894	169,094
Intergovernmental	7,641,814	7,881,956	7,251,624	(630,332)
Departmental earnings	7,292,500	7,292,500	6,974,500	(318,000)
Fines and forfeitures	365,000	365,000	386,048	21,048
Investment income	100,000	100,000	328,409	228,409
Municipal recreation	475,000	475,000	417,109	(57,891)
Host fees	9,825,000	9,825,000	12,213,781	2,388,781
Other operating revenues	1,108,000	1,108,000	1,126,212	18,212
Miscellaneous	1,681,500	1,681,500	1,239,209	(442,291)
Total revenues	<u>72,858,473</u>	<u>73,098,615</u>	<u>74,507,286</u>	<u>1,408,671</u>
Expenditures:				
Current:				
General government	1,037,762	1,037,762	1,000,940	36,822
Administration	1,930,728	1,984,378	1,794,908	189,470
Community development	6,181,988	6,466,130	5,729,806	736,324
Parks and public property	760,324	640,324	565,358	74,966
Public works	9,700,778	10,032,278	9,444,489	587,789
Police	14,578,823	14,578,823	14,162,355	416,468
Fire	11,182,670	11,184,070	10,840,293	343,777
General	20,646,720	20,286,170	18,816,247	1,469,923
Civic	223,969	273,969	204,297	69,672
Library	1,315,934	1,315,934	1,315,934	-
Debt service:				
Principal	3,155,000	3,155,000	3,155,000	-
Interest	3,121,043	3,121,043	3,116,964	4,079
Total expenditures	<u>73,835,739</u>	<u>74,075,881</u>	<u>70,146,591</u>	<u>3,929,290</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(977,266)</u>	<u>(977,266)</u>	<u>4,360,695</u>	<u>5,337,961</u>
Other Financing Sources (Uses):				
Transfers in	2,941,527	2,941,527	2,963,188	21,661
Transfers out	(1,964,261)	(1,964,261)	(1,964,261)	-
Total other financing sources (uses)	<u>977,266</u>	<u>977,266</u>	<u>998,927</u>	<u>21,661</u>
Net Change in Fund Balance	-	-	5,359,622	5,359,622
Fund Balance:				
Beginning of the year, budgetary basis	-	-	10,076,557	10,076,557
End of the year, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,436,179</u>	<u>\$ 15,436,179</u>

See accompanying notes to budgetary comparison schedule.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2018

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	\$ 77,470,474	\$ 72,110,852
Other fund borrowings	290,295	-
Accrual adjustments:		
Receivables:		
Beginning of year	(12,103,206)	-
End of year	9,440,482	-
Due from/to:		
Beginning of year	8,902,142	6,631,658
End of year	(7,300,185)	(4,126,987)
Accrued liabilities:		
Beginning of year	-	(2,491,354)
End of year	-	3,168,054
Unearned and unavailable revenues:		
Beginning of year	2,376,906	-
End of year	(2,436,822)	-
Agency transactions	131,036	-
Reclassifications	744,437	744,437
GAAP basis	<u>\$ 77,515,559</u>	<u>\$ 76,036,660</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

	2018*	2017	2016	2015	2014
Total Pension Liability:					
Service cost	\$ 2,209,414	\$ 2,114,272	\$ 2,132,733	\$ 2,040,893	\$ 2,051,464
Interest	8,689,540	8,420,015	7,764,382	7,503,420	6,976,913
Differences between expected and actual experience	-	3,269,690	-	4,010,737	-
Changes in assumptions	-	2,182,081	-	-	-
Benefit payments, including refunds	<u>(7,222,763)</u>	<u>(6,848,745)</u>	<u>(6,328,562)</u>	<u>(5,984,760)</u>	<u>(6,032,142)</u>
Net Changes in Total Pension Liability	3,676,191	9,137,313	3,568,553	7,570,290	2,996,235
Total Pension Liability - Beginning	<u>117,262,507</u>	<u>108,125,194</u>	<u>104,556,641</u>	<u>96,986,351</u>	<u>93,990,116</u>
Total Pension Liability - Ending (a)	<u>\$ 120,938,698</u>	<u>\$ 117,262,507</u>	<u>\$ 108,125,194</u>	<u>\$ 104,556,641</u>	<u>\$ 96,986,351</u>
Plan Fiduciary Net Position:					
Contributions - employer	\$ 4,515,210	\$ 4,463,427	\$ 4,430,587	\$ 4,298,925	\$ 3,520,610
Contributions - employee	775,370	812,201	846,396	823,385	817,800
Net investment income (loss)	(4,267,003)	11,522,639	6,264,754	414,168	3,608,964
Benefit payments, including refunds	(7,222,763)	(6,848,745)	(6,328,562)	(5,984,760)	(6,032,142)
Administrative expense	<u>(21,952)</u>	<u>(18,241)</u>	<u>(32,879)</u>	<u>(18,920)</u>	<u>(7,400)</u>
Net Change in Plan Fiduciary Net Position	(6,221,138)	9,931,281	5,180,296	(467,202)	1,907,832
Plan Fiduciary Net Position - Beginning	<u>90,607,840</u>	<u>80,676,559</u>	<u>75,496,263</u>	<u>75,963,465</u>	<u>74,055,633</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 84,386,702</u>	<u>\$ 90,607,840</u>	<u>\$ 80,676,559</u>	<u>\$ 75,496,263</u>	<u>\$ 75,963,465</u>
Net Pension Liability - Ending (a-b)	<u>\$ 36,551,996</u>	<u>\$ 26,654,667</u>	<u>\$ 27,448,635</u>	<u>\$ 29,060,378</u>	<u>\$ 21,022,886</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>69.78%</u>	<u>77.27%</u>	<u>74.61%</u>	<u>72.21%</u>	<u>78.32%</u>
Covered Payroll	<u>\$ 11,814,880</u>	<u>\$ 11,580,766</u>	<u>\$ 12,453,621</u>	<u>\$ 11,756,420</u>	<u>\$ 11,524,100</u>
Net Pension Liability as a Percentage of Covered Payroll	<u>309.37%</u>	<u>230.16%</u>	<u>220.41%</u>	<u>247.19%</u>	<u>182.43%</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - POLICE PENSION PLAN

	2018*	2017	2016	2015	2014	2013	2012	2011	2010	2009
Schedule of City Contributions										
Actuarially determined contribution	\$ 4,515,210	\$ 4,463,427	\$ 4,430,587	\$ 4,298,925	\$ 3,520,610	\$ 3,494,690	\$ 2,520,216	\$ 2,534,484	\$ 1,921,109	\$ 1,847,708
Contributions in relation to the actuarially determined contributions	<u>4,515,210</u>	<u>4,463,427</u>	<u>4,430,587</u>	<u>4,298,925</u>	<u>3,520,610</u>	<u>3,494,690</u>	<u>2,520,217</u>	<u>2,614,322</u>	<u>2,091,038</u>	<u>1,938,673</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ (79,838)	\$ (169,929)	\$ (90,965)
Covered payroll	<u>\$ 11,814,880</u>	<u>\$ 11,580,766</u>	<u>\$ 12,453,621</u>	<u>\$ 11,756,420</u>	<u>\$ 11,524,100</u>					
Contributions as a percentage of covered payroll	<u>38.22%</u>	<u>38.54%</u>	<u>35.58%</u>	<u>36.57%</u>	<u>30.55%</u>					
Investment Returns										
Annual money-weighted rate of return, net of investment expense	<u>-4.35%</u>	<u>14.27%</u>	<u>8.75%</u>	<u>0.84%</u>	<u>5.73%</u>					
Methods and assumptions used to determine contribution rate for the year ended December 31, 2018:										
Actuarial valuation date:	January 1, 2015									
Actuarial cost method:	Entry age normal									
Amortization method:	Level dollar closed									
Remaining amortization period:	15 years									
Asset valuation method:	Market value of assets as determined by the trustee									
Inflation:	3.00%									
Salary increases:	4.50%									
Investment rate of return:	7.50%									
Retirement age:	Attainment of age 57 and completion of 20 years of service									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	Effective July 1, 2015, members hired on or after January 1, 2012, contribute 5% of compensation, plus \$1 per month									

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

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2018*	2017	2016	2015	2014
Total Pension Liability:	<hr/>				
Service cost	\$ 1,534,859	\$ 1,468,765	\$ 1,355,990	\$ 1,297,598	\$ 1,290,085
Interest	5,926,728	5,733,824	5,213,255	5,067,577	4,837,270
Differences between expected and actual experience	-	3,339,533	-	1,257,475	-
Changes in assumptions	-	1,635,967	-	-	-
Benefit payments, including refunds	(4,864,612)	(5,015,911)	(4,335,057)	(4,563,169)	(4,629,623)
Net Changes in Total Pension Liability	2,596,975	7,162,178	2,234,188	3,059,481	1,497,732
Total Pension Liability - Beginning	79,943,550	72,781,372	70,547,184	67,487,703	65,989,971
Total Pension Liability - Ending (a)	<u>\$ 82,540,525</u>	<u>\$ 79,943,550</u>	<u>\$ 72,781,372</u>	<u>\$ 70,547,184</u>	<u>\$ 67,487,703</u>
Plan Fiduciary Net Position:	<hr/>				
Contributions - employer	\$ 2,668,509	\$ 2,595,844	\$ 2,550,742	\$ 2,683,110	\$ 2,223,040
Contributions - employee	620,702	617,367	644,461	570,801	572,480
Net investment income (loss)	(3,092,763)	8,420,260	4,634,719	269,203	2,701,705
Benefit payments, including refunds	(4,864,612)	(5,015,911)	(4,335,057)	(4,563,169)	(4,629,623)
Administrative expense	(21,965)	(13,894)	(22,991)	(14,450)	(6,900)
Net Change in Plan Fiduciary Net Position	(4,690,129)	6,603,666	3,471,874	(1,054,505)	860,702
Plan Fiduciary Net Position - Beginning	65,781,217	59,177,551	55,705,677	56,760,182	55,899,480
Plan Fiduciary Net Position - Ending (b)	<u>\$ 61,091,088</u>	<u>\$ 65,781,217</u>	<u>\$ 59,177,551</u>	<u>\$ 55,705,677</u>	<u>\$ 56,760,182</u>
Net Pension Liability - Ending (a-b)	<u>\$ 21,449,437</u>	<u>\$ 14,162,333</u>	<u>\$ 13,603,821</u>	<u>\$ 14,841,507</u>	<u>\$ 10,727,521</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>74.01%</u>	<u>82.28%</u>	<u>81.31%</u>	<u>78.96%</u>	<u>84.10%</u>
Covered Payroll	<u>\$ 7,711,777</u>	<u>\$ 7,639,322</u>	<u>\$ 8,021,606</u>	<u>\$ 6,860,596</u>	<u>\$ 7,065,479</u>
Net Pension Liability as a Percentage of Covered Payroll	<u>278.14%</u>	<u>185.39%</u>	<u>169.59%</u>	<u>216.33%</u>	<u>151.83%</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - FIREMEN PENSION PLAN

	2018*	2017	2016	2015	2014	2013	2012	2011	2010	2009
Schedule of City Contributions										
Actuarially determined contribution	\$ 2,668,509	\$ 2,595,844	\$ 2,550,742	\$ 2,683,110	\$ 2,223,040	\$ 2,245,105	\$ 1,492,988	\$ 1,672,843	\$ 1,136,780	\$ 1,174,242
Contributions in relation to the actuarially determined contributions	<u>2,668,509</u>	<u>2,595,844</u>	<u>2,550,742</u>	<u>2,683,110</u>	<u>2,223,040</u>	<u>2,245,105</u>	<u>1,492,989</u>	<u>1,701,818</u>	<u>1,227,791</u>	<u>1,214,739</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ (28,975)	\$ (91,011)	\$ (40,497)
Covered payroll	<u>\$ 7,711,777</u>	<u>\$ 7,639,322</u>	<u>\$ 8,021,606</u>	<u>\$ 6,860,596</u>	<u>\$ 7,065,479</u>					
Contributions as a percentage of covered payroll	<u>34.60%</u>	<u>33.98%</u>	<u>31.80%</u>	<u>39.11%</u>	<u>31.46%</u>					
Investment Returns										
Annual money-weighted rate of return, net of investment expense	<u>-4.35%</u>	<u>14.27%</u>	<u>8.75%</u>	<u>0.84%</u>	<u>5.73%</u>					
Methods and assumptions used to determine contribution rate for the year ended December 31, 2018:										
Actuarial valuation date:	January 1, 2015									
Actuarial cost method:	Entry age normal									
Amortization method:	Level dollar closed									
Remaining amortization period:	11 years									
Asset valuation method:	Market value of assets as determined by the trustee									
Inflation:	3.00%									
Salary increases:	4.50%									
Investment rate of return:	7.50%									
Retirement age:	Attainment of age 57 and completion of 20 years of service									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	None since January 1, 2015									

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

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2018*	2017	2016	2015	2014
Total Pension Liability:					
Interest	\$ -	\$ 105,005	\$ 364,258	\$ 398,088	\$ 444,150
Differences between expected and actual experience	-	1,375,308	-	(128,970)	-
Changes in assumptions	-	269,994	-	-	-
Benefit payments, including refunds	-	(6,562,548)	(817,601)	(880,698)	(977,981)
Net Changes in Total Pension Liability	-	(4,812,241)	(453,343)	(611,580)	(533,831)
Total Pension Liability - Beginning	-	4,812,241	5,265,584	5,877,164	6,410,995
Total Pension Liability - Ending (a)	\$ -	\$ -	\$ 4,812,241	\$ 5,265,584	\$ 5,877,164
Plan Fiduciary Net Position:					
Contributions - employer	\$ -	\$ -	\$ -	\$ 698,515	\$ 1,040,430
Net investment income	1,794	634,981	582,408	45,544	338,756
Benefit payments, including refunds	-	(6,562,548)	(817,601)	(880,698)	(977,981)
Transfer to agent multiple employer plan	(1,115,000)	-	-	-	-
Administrative expense	(218)	(3,643)	(6,332)	(1,811)	(5,000)
Net Change in Plan Fiduciary Net Position	(1,113,424)	(5,931,210)	(241,525)	(138,450)	396,205
Plan Fiduciary Net Position - Beginning	1,113,424	7,044,634	7,286,159	7,424,609	7,028,404
Plan Fiduciary Net Position - Ending (b)	\$ -	\$ 1,113,424	\$ 7,044,634	\$ 7,286,159	\$ 7,424,609
Net Pension Asset - Ending (a-b)	\$ -	\$ (1,113,424)	\$ (2,232,393)	\$ (2,020,575)	\$ (1,547,445)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	N/A	N/A	146.39%	138.37%	126.33%
Covered Payroll	\$ -	\$ -	\$ -	\$ -	\$ -
Net Pension Asset as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A

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CITY OF BETHLEHEM, PENNSYLVANIA

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

	2018*	2017	2016	2015	2014	2013	2012	2011	2010	2009
Schedule of City Contributions										
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ 698,515	\$ 1,040,430	\$ 1,051,497	\$ 432,314	\$ 455,998	\$ 467,762	\$ 622,663
Contributions in relation to the actuarially determined contributions	-	-	-	698,515	1,040,430	1,051,497	432,315	458,902	487,529	648,841
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ (2,904)	\$ (19,767)	\$ (26,178)
Covered payroll	\$ -	\$ -	\$ -	\$ -	\$ -					
Contributions as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A					
Investment Returns										
Annual money-weighted rate of return, net of investment expense	N/A	14.27%	8.75%	0.84%	5.73%					
Methods and assumptions used to determine contribution rate for the year ended December 31, 2016:										
Actuarial valuation date:	January 1, 2015									
Actuarial cost method:	Entry age normal									
Amortization method:	Level dollar closed									
Remaining amortization period:	N/A years									
Asset valuation method:	Market value of assets as determined by the trustee									
Inflation:	3.00%									
Salary increases	4.50%									
Investment rate of return	7.50%									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	None since January 1, 2015									

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

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2018*	2017	2016	2015
Total Pension Liability:				
Service cost	\$ 2,563,555	\$ 2,561,288	\$ 2,610,686	\$ 2,788,823
Interest	7,483,384	7,409,285	7,143,983	6,983,880
Transfers	72,665	1,242	8,868	408,927
Changes in assumptions	-	3,737,933	2,482,253	-
Benefit payments, including refunds	(8,316,599)	(7,233,675)	(7,502,216)	(7,143,060)
Differences between expected and actual experience	-	1,849,458	-	425,849
Net Changes in Total Pension Liability	1,803,005	8,325,531	4,743,574	3,464,419
Total Pension Liability - Beginning	144,046,339	135,720,808	130,977,234	127,512,815
Total Pension Liability - Ending (a)	\$ 145,849,344	\$ 144,046,339	\$ 135,720,808	\$ 130,977,234
Plan Fiduciary Net Position:				
Contributions - employer	\$ 1,181,609	\$ 1,177,999	\$ 1,118,126	\$ 28,582,658
Contributions - employee	1,621,913	1,657,679	1,539,086	1,625,488
Net investment income	22,018,223	10,428,786	8,161	4,481,780
Transfers	72,665	1,242	8,868	408,927
Benefit payments, including refunds	(8,316,599)	(7,233,675)	(7,502,216)	(7,143,060)
Administrative expense	(327,935)	(365,238)	(301,278)	(229,161)
Net Change in Plan Fiduciary Net Position	16,249,876	5,666,793	(5,129,253)	27,726,632
Plan Fiduciary Net Position - Beginning	127,528,746	121,861,953	126,991,206	99,264,574
Plan Fiduciary Net Position - Ending (b)	\$ 143,778,622	\$ 127,528,746	\$ 121,861,953	\$ 126,991,206
Net Pension Liability - Ending (a-b)	\$ 2,070,722	\$ 16,517,593	\$ 13,858,855	\$ 3,986,028
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.58%	88.53%	89.79%	96.96%
Covered Payroll	\$ 21,347,566	\$ 22,036,333	\$ 20,428,871	\$ 20,610,195
Net Pension Liability as a Percentage of Covered Payroll	9.70%	74.96%	67.84%	19.34%

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CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2018*	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 1,181,049	\$ 1,177,599	\$ 1,117,586	\$ 821,609	\$ 4,033,848	\$ 2,939,785	\$ 3,041,355	\$ 3,428,478	\$ 3,349,700	\$ 3,263,683
Contributions in relation to the actuarially determined contributions	<u>1,181,609</u>	<u>1,177,999</u>	<u>1,118,126</u>	<u>1,172,109</u>	<u>4,033,848</u>	<u>2,939,785</u>	<u>3,041,355</u>	<u>3,428,478</u>	<u>3,349,700</u>	<u>3,263,683</u>
Contribution deficiency (excess)	<u>\$ (560)</u>	<u>\$ (400)</u>	<u>\$ (540)</u>	<u>\$ (350,500)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 21,347,566</u>	<u>\$ 22,036,333</u>	<u>\$ 20,428,871</u>	<u>\$ 20,610,195</u>						
Contributions as a percentage of covered payroll	<u>5.54%</u>	<u>5.35%</u>	<u>5.47%</u>	<u>5.69%</u>						

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Methods and assumptions used to determine contribution rates:

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

Changes in actuarial assumptions:

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2018*	2017	2016	2015
Total Pension Liability:				
Service cost	\$ 140,452	\$ 135,799	\$ 142,903	\$ 158,054
Interest	169,771	143,736	135,565	131,874
Changes in assumptions	-	88,483	72,908	-
Benefit payments, including refunds	(127,881)	(88,057)	(300,495)	(84,529)
Differences between expected and actual experience	-	355,416	-	162,885
Net Changes in Total Pension Liability	182,342	635,377	50,881	368,284
Total Pension Liability - Beginning	3,156,403	2,521,026	2,470,145	2,101,861
Total Pension Liability - Ending (a)	\$ 3,338,745	\$ 3,156,403	\$ 2,521,026	\$ 2,470,145
Plan Fiduciary Net Position:				
Contributions - employer	\$ 67,090	\$ 64,855	\$ 59,568	\$ 64,369
Contributions - employee	72,673	71,208	74,413	68,403
Net investment income (loss)	441,283	209,374	181,173	(98,056)
Benefit payments, including refunds	(127,881)	(88,057)	(300,495)	(84,529)
Administrative expense	(7,268)	(7,550)	(5,984)	(5,978)
Net Change in Plan Fiduciary Net Position	445,897	249,830	8,675	(55,791)
Plan Fiduciary Net Position - Beginning	2,673,925	2,424,095	2,415,420	2,471,211
Plan Fiduciary Net Position - Ending (b)	\$ 3,119,822	\$ 2,673,925	\$ 2,424,095	\$ 2,415,420
Net Pension Liability - Ending (a-b)	\$ 218,923	\$ 482,478	\$ 96,931	\$ 54,725
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.44%	84.71%	96.16%	97.78%
Covered Payroll	\$ 968,961	\$ 949,433	\$ 992,174	\$ 901,337
Net Pension Liability as a Percentage of Covered Payroll	22.59%	50.82%	9.77%	6.07%

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CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF BETHLEHEM PARKING AUTHORITY CONTRIBUTIONS

	2018	2017	2016	2015	2014	2013 **
Actuarially determined contribution	\$ 66,979	\$ 64,835	\$ 59,488	\$ 64,309	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	67,090	64,855	59,568	64,369	-	-
Contribution deficiency (excess)	\$ (111)	\$ (20)	\$ (80)	\$ (60)	\$ -	\$ -
Covered payroll	\$ 968,961	\$ 949,433	\$ 992,174	\$ 901,337		
Contributions as a percentage of covered payroll	6.92%	6.83%	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, 2015
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar closed
Remaining amortization period:	Based on periods in Act 205
Asset valuation method:	Based on the municipal reserves
Underlying inflation rate:	3.00%
Projected salary increases:	Age related scale with merit and inflation component
Investment rate of return:	5.5%
Cost-of-living adjustment increase:	3.00%
Pre-retirement mortality:	Males: RP 2000 with 1 year set back Females: RP 2000 with 5 year set back
Post-retirement mortality:	Males and females: Sex distinct RP 2000 Combined Healthy Mortality

Changes in actuarial assumptions:

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

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

	2018*	2017	2016	2015
Total Pension Liability:				
Service cost	\$ 23,589	\$ 23,110	\$ 22,509	\$ 21,777
Interest	52,803	51,724	50,385	49,383
Benefit payments, including refunds	(73,458)	(73,458)	(73,458)	(73,458)
Differences between expected and actual experience	-	38,737	-	19,796
Changes in assumptions	-	24,749	24,308	-
Net Changes in Total Pension Liability	2,934	64,862	23,744	17,498
Total Pension Liability - Beginning	1,018,434	953,572	929,828	912,330
Total Pension Liability - Ending (a)	<u>\$ 1,021,368</u>	<u>\$ 1,018,434</u>	<u>\$ 953,572</u>	<u>\$ 929,828</u>
Plan Fiduciary Net Position:				
Contributions - employer	\$ 30,522	\$ 27,449	\$ 27,007	\$ 18,097
Contributions - employee	9,125	9,191	8,592	8,304
Net investment income	145,234	84,414	19,218	50,638
Benefit payments, including refunds	(73,458)	(73,458)	(73,458)	(73,458)
Administrative expense	(2,155)	(2,311)	(1,918)	(1,746)
Net Change in Plan Fiduciary Net Position	109,268	45,285	(20,559)	1,835
Plan Fiduciary Net Position - Beginning	823,099	777,814	798,373	796,538
Plan Fiduciary Net Position - Ending (b)	<u>\$ 932,367</u>	<u>\$ 823,099</u>	<u>\$ 777,814</u>	<u>\$ 798,373</u>
Net Pension Liability - Ending (a-b)	<u>\$ 89,001</u>	<u>\$ 195,335</u>	<u>\$ 175,758</u>	<u>\$ 131,455</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>91.29%</u>	<u>80.82%</u>	<u>81.57%</u>	<u>85.86%</u>
Covered Payroll	<u>\$ 165,905</u>	<u>\$ 167,105</u>	<u>\$ 156,218</u>	<u>\$ 156,502</u>
Net Pension Liability as a Percentage of Covered Payroll	<u>53.65%</u>	<u>116.89%</u>	<u>112.51%</u>	<u>84.00%</u>

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CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF BETHLEHEM REDEVELOPMENT AUTHORITY CONTRIBUTIONS

	2018*	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 30,522	\$ 27,449	\$ 27,007	\$ 18,486	\$ 17,598	\$ -	\$ -	\$ -	\$ -	\$ 7,581
Contributions in relation to the actuarially determined contributions	30,522	27,449	27,007	18,097	17,598	-	-	-	-	7,581
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ 389	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 165,905	\$ 167,105	\$ 156,218	\$ 156,502						
Contributions as a percentage of covered payroll	18.40%	16.43%	17.29%	11.56%						

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Methods and assumptions used to determine contribution rates:

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

Changes in actuarial assumptions:

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

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

CITY OF BETHLEHEM, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION - OPEB
SCHEDULE OF CHANGES IN THE OPEB PLAN'S
TOTAL OPEB LIABILITY
YEAR ENDED DECEMBER 31, 2018

	2018*
Total OPEB Liability:	
Service cost	\$ 678,935
Interest	576,183
Differences between expected and actual experience	292,245
Changes in assumptions	724,337
Benefit payments, including refunds	(879,720)
Net Changes in Total OPEB Liability	1,391,980
Total OPEB Liability - Beginning	15,328,143
Total OPEB Liability - Ending	\$ 16,720,123

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CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB

YEAR ENDED DECEMBER 31, 2018

1. Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to determine contribution rates reported in the OPEB required supplementary schedule:

Valuation date	1/1/2018
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Interest rate	3.16%
Projected salary increases	4.5%
Mortality	IRS 2017 Static Combined Table for Small Plans (incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement).
Health insurance premiums	Based on 2018 health and dental insurance premiums.
Health care cost trend rates	6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
Actuarial value of assets	Not applicable

No assets are accumulated in a trust for the OPEB Plan.

Changes in Actuarial Assumptions

The interest rate was changed from 4.50% at January 1, 2016 to 3.16% at January 1, 2018. The healthcare cost trend rates and mortality tables were also updated.

SUPPLEMENTARY INFORMATION

CITY OF BETHLEHEM, PENNSYLVANIA

COMBINING BALANCE SHEET - OTHER NON-MAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
Assets				
Cash and cash equivalents	\$ 3,452,387	\$ 2,502,836	\$ 1,084,745	\$ 7,039,968
Receivables:				
Loans	-	1,283,437	-	1,283,437
Due from other governments	601,566	271,516	-	873,082
Total Assets	\$ 4,053,953	\$ 4,057,789	\$ 1,084,745	\$ 9,196,487
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and other accrued expenses	\$ 2,917	\$ 262,059	\$ 56,732	\$ 321,708
Accrued payroll	35,395	5,703	-	41,098
Accrued vacation and other compensated absences	22,890	9,619	-	32,509
Due to other funds	2,075,000	17,338	-	2,092,338
Unearned revenues	-	3,763,070	-	3,763,070
Total Liabilities	2,136,202	4,057,789	56,732	6,250,723
Fund Balance:				
Restricted for:				
Public works	-	-	1,028,013	1,028,013
Police	1,917,751	-	-	1,917,751
Total Fund Balance	1,917,751	-	1,028,013	2,945,764
Total Liabilities and Fund Balance	\$ 4,053,953	\$ 4,057,789	\$ 1,084,745	\$ 9,196,487

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2018

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
Revenues:				
Intergovernmental revenues	\$ 2,435,364	\$ 1,764,411	\$ 2,137,649	\$ 6,337,424
Investment income	34,152	12,531	23,876	70,559
Other	-	849,351	-	849,351
Total revenues	2,469,516	2,626,293	2,161,525	7,257,334
Expenditures:				
Current:				
Public works	-	-	2,096,839	2,096,839
Police	2,372,425	-	-	2,372,425
Program expenditures	-	2,626,293	-	2,626,293
Total expenditures	2,372,425	2,626,293	2,096,839	7,095,557
Excess of Revenues Over Expenditures	97,091	-	64,686	161,777
Other Financing Sources (Uses):				
Transfers in	1,485,000	-	-	1,485,000
Transfers out	(2,725,086)	-	-	(2,725,086)
Total other financing sources (uses)	(1,240,086)	-	-	(1,240,086)
Net Change in Fund Balance	(1,142,995)	-	64,686	(1,078,309)
Fund Balance:				
Beginning of year	3,060,746	-	963,327	4,024,073
End of year	<u>\$ 1,917,751</u>	<u>\$ -</u>	<u>\$ 1,028,013</u>	<u>\$ 2,945,764</u>