

City of Bethlehem, Pennsylvania

Financial Statements and Supplementary
Information

Year Ended December 31, 2019
with Independent Auditor's Report

MaherDuessel

A horizontal bar is positioned below the company name. The left portion of the bar is black, and the right portion is blue, matching the color of the 'D' in the company name.

CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2019

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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, 2019, 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 did not audit the financial statements of Bethlehem Parking Authority, which represents 48 percent, 31 percent, and 31 percent, respectively of the assets and deferred outflows of resources, net position, and revenues of the aggregate discretely presented component units. The Bethlehem Parking Authority's financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates the amounts included for the aggregate discretely presented component units, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the historical pension plan and other post-employment benefit plan information, as listed in the table of contents, 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 and other auditors 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 10, 2020, 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 10, 2020

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, 2019 and 2018. 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 \$4,145,453 during the year ended December 31, 2019 and increased by \$4,815,657 in 2018.

In the City's governmental activities, net position increased by \$10,804 in 2019 and increased by \$577,518 in 2018. 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 the City's business-type activities, net position increased by \$4,134,649 in 2019 and increased by \$4,238,139 in 2018. In 2019, the increase in net position is the result of decrease in deferred inflows of resources for pension as a result of market conditions recognized in GASB No. 68 actuarial valuations. 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.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash*

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

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

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

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

Governmental Funds *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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, 2019 by \$48,868,080 and 2018 by \$53,013,533.

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	
	2019	2018	2019	2018	2019	2018
Current assets	\$ 42,832,453	\$ 40,140,656	\$ 31,342,710	\$ 27,985,149	\$ 74,175,163	\$ 68,125,805
Capital assets	65,522,334	67,218,622	93,025,491	96,326,658	158,547,825	163,545,280
Other assets	1,979,260	1,788,137	16,814,566	16,180,499	18,793,826	17,968,636
Total assets	\$ 110,334,047	\$ 109,147,415	\$ 141,182,767	\$ 140,492,306	\$ 251,516,814	\$ 249,639,721
Deferred outflows of resources	\$ 27,856,087	\$ 31,657,268	\$ 2,222,335	\$ 2,390,086	\$ 30,078,422	\$ 34,047,354
Current liabilities	\$ 14,995,290	\$ 17,845,910	\$ 10,949,633	\$ 10,404,658	\$ 25,944,923	\$ 28,250,568
Noncurrent liabilities	183,329,957	184,809,492	112,254,396	112,347,894	295,584,353	297,157,386
Total liabilities	\$ 198,325,247	\$ 202,655,402	\$ 123,204,029	\$ 122,752,552	\$ 321,529,276	\$ 325,407,954
Deferred inflows of resources	\$ 8,698,469	\$ 6,993,667	\$ 235,571	\$ 4,298,987	\$ 8,934,040	\$ 11,292,654
Net investment in capital assets	\$ 38,517,348	\$ 30,757,968	\$ 3,257,493	\$ 2,673,522	\$ 41,774,841	\$ 33,431,490
Restricted	1,537,397	4,425,932	-	-	1,537,397	4,425,932
Unrestricted	(108,888,327)	(104,028,286)	16,708,009	13,157,331	(92,180,318)	(90,870,955)
Total net position (deficit)	\$ (68,833,582)	\$ (68,844,386)	\$ 19,965,502	\$ 15,830,853	\$ (48,868,080)	\$ (53,013,533)

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Current assets in governmental activities increased approximately \$2.7 million, primarily due to increase in cash and cash equivalents.

Capital assets in governmental activities decreased approximately \$2.7 million. This was due to total additions of \$8 million offset by \$9.1 million of depreciation expense and loss on disposal.

Deferred outflows of resources in governmental activities decreased approximately \$3.8 million. This was due to a \$8.7 million decrease in deferred outflows of resources for pensions primarily due to the deferral of differences in projected and actual earnings on pension plan investments, as well as differences between expected and actual experience, and changes in assumptions per the GASB 68 actuarial valuations. This was offset by the increase in deferred charge of refunding by approximately \$5 million due to debt refundings that took place during 2019.

Current liabilities in governmental activities decreased approximately \$2.8 million. This was due to decrease in current portion of long-term debt current portion of capital lease as result of timing of payments in accordance with maturity schedules.

Noncurrent liabilities in governmental activities decreased approximately \$1.5 million. This was due to increase in long-term debt (net of current portion) totaling \$6.3 million (result of 2019 debt issuances as explain under the "Long-Term Debt" section) offset with \$7.1 million decrease in net pension liability mainly a result of investment activity recognized in GASB No. 68 actuarial valuations for the Police and Fire pension plans.

Current assets in business-type activities increased approximately \$3.3 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 \$3.3 million. This was due to total additions of \$6.4 million offset by depreciation expense of \$9.4 million.

Deferred inflows of resources in business-type activities decreased approximately \$4.0 million. This was primarily due to the change in the differences between projected and actual investment earnings in the pension plans, as in accordance with the GASB 68 actual valuations.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

City's Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Program revenues:						
Charges for services	\$ 13,546,999	\$ 11,804,107	\$ 41,542,326	\$ 41,179,628	\$ 55,089,325	\$ 52,983,735
Operating grants and contributions	8,778,110	11,615,104	-	-	8,778,110	11,615,104
Capital grants and contributions	1,138,658	465,054	27,556	27,075	1,166,214	492,129
General revenues:						
Taxes	44,308,727	43,436,752	-	-	44,308,727	43,436,752
Sale of capital assets	780,581	-	-	-	780,581	-
Investment earnings	672,898	459,737	1,154,961	1,020,926	1,827,859	1,480,663
Unrestricted grants	15,281,875	15,436,534	-	-	15,281,875	15,436,534
Total revenues	84,507,848	83,217,288	42,724,843	42,227,629	127,232,691	125,444,917
Expenses:						
General government	947,166	804,403	-	-	947,166	804,403
Administrative	1,459,404	1,165,687	-	-	1,459,404	1,165,687
Community development	7,680,697	6,987,806	-	-	7,680,697	6,987,806
Parks and public property	2,625,506	2,828,177	-	-	2,625,506	2,828,177
Public works	14,869,405	14,405,268	-	-	14,869,405	14,405,268
Police	24,683,827	24,042,620	-	-	24,683,827	24,042,620
Fire	16,430,920	15,866,035	-	-	16,430,920	15,866,035
General expenditures	10,379,982	11,161,566	-	-	10,379,982	11,161,566
Civic	127,890	214,976	-	-	127,890	214,976
Library	1,617,086	1,565,684	-	-	1,617,086	1,565,684
Program expenditures	1,540,624	2,307,896	-	-	1,540,624	2,307,896
Interest on long-term debt	5,239,134	5,024,111	-	-	5,239,134	5,024,111
Water fund	-	-	19,909,684	19,558,390	19,909,684	19,558,390
Sewer fund	-	-	14,427,340	13,338,919	14,427,340	13,338,919
Other non-major fund	-	-	1,148,573	1,357,722	1,148,573	1,357,722
Total expenses	87,601,641	86,374,229	35,485,597	34,255,031	123,087,238	120,629,260
Change in net position before transfers	(3,093,793)	(3,156,941)	7,239,246	7,972,598	4,145,453	4,815,657
Transfers	3,104,597	3,734,459	(3,104,597)	(3,734,459)	-	-
Change in net position	10,804	577,518	4,134,649	4,238,139	4,145,453	4,815,657
Net position:						
Beginning	(68,844,386)	(69,421,904)	15,830,853	11,592,714	(53,013,533)	(57,829,190)
Ending	<u>\$ (68,833,582)</u>	<u>\$ (68,844,386)</u>	<u>\$ 19,965,502</u>	<u>\$ 15,830,853</u>	<u>\$ (48,868,080)</u>	<u>\$ (53,013,533)</u>

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Governmental activities. Governmental activities increased the City's net position by \$10,804 for the year ended December 31, 2019. Key elements of this increase are as follows:

- Taxes in governmental activities increased approximately \$872,000 due to increase in real estate transfer tax result of casino sale in 2019, as well as 3.8% increase in real estate tax millage rate. These 2019 increases were offset by the one-time favorable adjustment to earned income taxes of \$1.6 million in 2018 to eliminate a liability that previously existed and was determined by the City to no longer be due and payable.
- Police operating grants and contributions decreased by \$1.3 million as a result of the 911 operation sale to the County half-way through 2019.
- Sale of 911 operations to the County resulted in gain on capital assets of approximately \$780,600.

Business-type activities. Business-type activities increased the City's net position by \$4,134,649 for the year ended December 31, 2019. Key elements of this change are as follows:

- Deferred inflows of resources for pensions decreased approximately \$4.0 million, as mentioned previously.
- Sewer Fund expenses in business-type activities increased approximately \$1 million. This was due to an increase of GASB No. 68 expense that was recorded in 2019 as a result of market conditions recognized in GASB No. 68 actuarial valuations as well as increase in service charges allocated to the sewer fund.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Financial Analysis of the Major Funds

General Fund

Revenues of the General Fund totaled \$77,067,048 for the year ended December 31, 2019. The following represents a summary of General Fund revenue, for the years ended December 31, 2019 and 2018 by source, along with changes from 2018:

	2019	2018	Change From 2018 to 2019	Percentage Change
Taxes	\$ 44,002,152	\$ 43,257,618	\$ 744,534	1.72%
Licenses and permits	3,345,203	3,036,539	308,664	10.16%
Intergovernmental revenues	8,859,899	8,742,979	116,920	1.34%
Fines and forfeitures	445,880	386,048	59,832	15.50%
Departmental earnings	7,744,841	6,966,958	777,883	11.17%
Other charges	1,248,307	1,480,756	(232,449)	-15.70%
Municipal recreation	769,006	423,234	345,772	81.70%
Investment income	479,814	341,115	138,699	40.66%
Host fee	9,804,501	9,757,198	47,303	0.48%
Other	367,445	382,835	(15,390)	-4.02%
Total	\$ 77,067,048	\$ 74,775,280	\$ 2,291,768	3.06%

Departmental earnings increased by \$777,883 from 2018 to 2019. The increase was due to several line items including a \$595,652 increase in Ambulance fees in part due to an increase in the Medicaid reimbursement rate, a \$68,687 increase in the First responder's fee due to delinquent amounts paid in 2019, and a \$41,255 increase in Zoning and inspection fees.

Taxes increased by \$744,354 from 2018 to 2019 due to a 3.8% real estate tax increase and a decrease in Earned income tax from a one-time favorable adjustment of \$1.6 million to eliminate a liability that previously existed and was determined by the City to no longer be due and payable which was recorded in 2018.

Municipal recreation increased by \$345,772 from 2018 to 2019 due to the recording of developer recreation fees used towards the construction of Memorial Pool.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Licenses and permits increased by \$308,664 from 2018 to 2019. The increase was due to an overall increase in construction activity for 2019. Cable TV franchise fees increased by \$75,904 due to a 4th quarter 2018 payment being received in 2019.

Investment income increased by \$138,699 from 2018 to 2019. The increase was due to a larger average daily cash balance and increases to the interest rate from TD Bank.

General Fund expenditures totaled \$65,848,076 for the year ended December 31, 2019, which represents an increase of \$1,952,909 or 3.06% from 2018. The following represents a summary of General Fund expenditures for the years ended December 31, 2019 and 2018, by function, along with changes from 2018:

	2019	2018	Change From 2018 to 2019	Percentage Change
General government	\$ 827,011	\$ 794,369	\$ 32,642	4.11%
Administrative	1,003,908	1,049,120	(45,212)	-4.31%
Community development	6,801,124	7,306,161	(505,037)	-6.91%
Parks and public property	441,199	583,781	(142,582)	-24.42%
Public works	8,302,246	7,625,712	676,534	8.87%
Police	20,696,620	19,157,444	1,539,176	8.03%
Fire	14,804,346	13,843,614	960,732	6.94%
General expenditures	10,378,735	10,968,737	(590,002)	-5.38%
Civic	127,890	214,976	(87,086)	-40.51%
Library	1,381,731	1,315,934	65,797	5.00%
Debt service - principal	940,249	881,977	58,272	6.61%
Debt service - interest	143,017	153,342	(10,325)	-6.73%
Total	\$ 65,848,076	\$ 63,895,167	\$ 1,952,909	3.06%

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

- Police expenditures increased by \$1,539,176 due to several line items including an increase in salaries of \$521,212. This occurred due to the labor contract being settled in 2019 and there was a retroactive payment made in 2019 for a 3% base salary increase for 2018. The Police MMO also increased by \$859,083 based on the most recent Act 205 actuarial valuation.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

- Fire expenditures increased by \$960,732 due to several line items including an increase in salaries of \$360,000 and MMO increase of \$769,607 based on the most recent Act 205 actuarial valuation.
- Public works increased by \$676,534 due to several line items including an increase in the pension allocation of \$231,194. Equipment in the Streets Bureau increased by \$187,376 due to a DEP equipment grant received for a leaf loader.
- General expenditures decreased by \$590,002 due to a decrease in Workmen's compensation of \$627,320 caused by additional claim settlements that occurred in 2018 as well as a reduction of overall claims in 2019. Medical insurance increased by \$394,613 due to an increase in larger individual claims.
- Community development decreased by \$505,037 due to a reduction of RACP funds of \$1,197,162. These are pass-through funds for the City and the amounts can fluctuate significantly from year to year. Lead Hazard in the Health Bureau increased by \$338,413 due an increase in additional grant funds awarded for the program. Equipment in the Recycling Bureau increased by \$161,610 due to a DEP equipment grant received for roll off containers.

General Fund Budgetary Highlights

The General Fund expenditure budget for fiscal year 2019 was approximately \$77.4 million. This was an increase of \$3.3 million over the previous year amended budget. There were no material amendments to the 2019 budget. Actual expenditures were approximately \$1.8 million less than budgeted. General expenditures were lower than budgeted due to a favorable variance in worker's compensation claims. 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 2019.

Non-Utility Capital Improvements Fund

Cash and cash equivalents increased by approximately \$7.5 million. This was due to having \$4.0 million in 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 as well as the issuance of bonds for capital projects for approximately \$5.0 million.

Capital outlays increased by approximately \$3.4 million. This is due to an increase in expenditures of \$1.6 million relating to the Memorial Pool project as well as the purchase of two fire engines which totaled an additional \$1.9 million.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Debt Service Fund

Debt service principal and interest expenditures are a function of amortization schedules created when debt is issued. Total debt service expenditures decreased approximately \$59,000 from 2018, 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.

Pension Trust Fund

At December 31, 2019, the net position - restricted for employees' retirement pension benefits was \$168,469,278. The average interest rate all inclusive with costs of the pension bond is 5.5%. The Fund returned 17.9%, net of fees, in 2019 based upon market activity. The Fund returned an average of 8.38% 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, 2019 amounted to \$65,522,334 and \$93,025,491 (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 \$1,889,000 towards the replacement of two engines for the Fire Department.
- The City spent \$1,779,443 towards reconstruction of the Memorial Pool complex.
- The City spent \$1,025,802 million towards street overlays.
- The City spent \$650,000 towards the replacement of trunking system radios.

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

- The City spent \$1,127,187 on design and construction service to renovate the main control building offices, labs, locker rooms, and other work spaces.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

- The City spent \$720,323 on the replacement, relocation, or rehabilitation of the water distribution system.
- The City spent \$533,026 on design and construction of a new non-potable water system.
- The City spent \$290,345 on sewer main replacement and upgrades as identified in the Act 537 Plan.
- The City spent \$248,377 on the evaluation and repair of the dike surrounding the Wastewater Treatment Plant to mitigate erosion, control growth of vegetation, and stabilize soils.

Additional information on the City's capital assets can be found at Note 4 on pages 52-56.

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.

In July of 2020, the City issued \$6,530,000 in debt to refund the City's PennVest Loan, Series of 2012.

As of July 23, 2020, the City's net nonelectoral debt of \$91,009,489 is well below the net nonelectoral debt limit of \$217,596,975. Additional information on the City's long-term debt can be found at Note 7 on pages 59-71 of this report.

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

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Economic Outlook

The City of Bethlehem continues to see economic activity throughout the community. The former Bethlehem Steel Corporation property provides the greatest opportunity for development projects. With Wind Creek's purchase of the Sands Casino in May of 2019, it is anticipated that an additional \$100 million will be invested at the site. The projects will further strengthen Bethlehem's position as a destination.

Further, 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. Of the industrial developments in 2019 a manufacturing firm, Continental Cup Company announced its move to LVIP VII and plan to invest 9.5 million to develop its facility. Also, the construction of two distribution buildings, named Steel City Trade Center was among the projects underway in LVIP VII.

Lehigh University continues to implement its \$1 billion Path to Prominence campaign, which includes Southside Commons that brings 428 students to the edge of downtown. Also, the new health sciences building will expand Lehigh's footprint, while Bridge West, the newest on-campus housing complex, will create a dynamic campus hub for students. Both of these projects are under construction now. With Lehigh's focus on innovation and the city's commitment to supporting small businesses, Bethlehem has morphed into a city where small businesses want to locate.

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 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.

In 2019, the City experienced a record-high \$308 million in new construction investment. Outside of the Sands Casino, this investment in over a decade. Further, the estimated construction costs over the last four years exceeded those of the previous four years by \$370 million.

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 to finance redevelopment.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Currently, the CRIZ is approximately 130 acres and the City is exploring nine different development projects. Recently completed projects include two mixed-use buildings – one a \$24 million office building located at 3rd and New Streets and the other a \$25 million mixed-use project located at 610 East Third. This recently completed project includes first floor retail uses and over 90 upper floor apartments, which added 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 includes the \$220 million development at the Martin Tower site and \$100 million hotel expansion at the Wind Creek Casino.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

The following is a list of other major development projects:

Residential		<u>Status as of October 2020</u>
BethArmory Apts. 345 2nd Ave.	18,000,000	Under Construction
305 1/2 Van Buren St. Multifamily Development	3,000,000	Under Construction
565 Lehigh St. Apts	6,500,000	Under Construction
Overlook at Saucon Creek	3,000,000	Under Construction / Portions Complete
Park View Commons - William Street	3,000,000	Under Construction / Portions Complete
Saucon Square Condominiums - Fire Lane	3,500,000	Under Construction / Portions Complete
Silk Mill Apartments (Phase 2)	8,000,000	Plans Approved
Stever Mills on Creek Rd.	15,000,000	Under Construction / Portions Complete
2321 Linford St. Apts.	1,600,000	Plans Approved
1535 Butztown Rd. Townhouses	600,000	Plans Submitted
Selfridge & Jackson Sts. Townhouses	3,056,000	Plans Submitted
Church Apartments - 938 E. 4th Street	2,500,000	Plans Submitted
10-16 W. Goepf Street Apartments	1,500,000	Plans Submitted
Wilbur Apts., 267 Cherokee St.	6,800,000	Plans Approved
Residential Subtotal	76,056,000	
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 - Rauch Addition, 461 Webster St.	28,000,000	Plans Approved
Lehigh University - Bridge West/68 University Dr.	99,000,000	Under Construction
Lehigh HST (124 E. Morton Street)	112,000,000	Under Construction
Moravian Village Twin Dwelling/500 Bk. E. Market St.	4,300,000	Under Construction
Terrace Homes at Northwood Gardens/2365 Madison Ave.	35,500,000	Under Construction / Portions Complete
Institutional Subtotal	278,800,000	

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Mixed-Use		<u>Status as of October 2020</u>
Greenway Commons, 610 Flats, 600-630 E. Third St	20,000,000	Plans Approved
Polk Street Parking Garage	16,000,000	Plans Approved
1338 E. Fourth Street	1,500,000	Plans Approved
Brinker Lofts, 321 Adams Street Commerical Portions	2,000,000	Residential Portion Complete
Webster Place, 202-208 E.3rd St	950,000	Under Construction / Portions Complete
548 N. New Street	8,300,000	Plans Approved
Flatiron Bldg, Phase 1 & 2, Broadway & 4th St	4,700,000	Under Renovation
Laros Apts. 601-699 E. Broad St	10,000,000	Under Construction
Martin Tower, Eighth Avenue	100,000,000	Plans Submitted
Mixed-Use Subtotal	163,450,000	
Industrial		
LVIP VII Lot 13, 2010 Spillman Drive	9,702,000	Under Construction / Portions Complete
LVIP VII Lot 81 - 1025 Feather Way	12,000,000	Under Construction
Majestic Lots 6 & 7, 3905 Commerce Center Blvd	39,650,000	Plans Approved
1198 and 2020 Feather Way	23,000,000	Under Construction / Portions Complete
1405 Easton Rd Expansion	8,000,000	Plans Approved
Industrial Subtotal	92,352,000	
Commercial		
Bethlehem LNG/1475 & 1525 Easton Road	40,000,000	Under Construction / Portions Complete
Casino Expansion - 77 Wind Creek Blvd.	100,000,000	Plans Approved
Westgate Mall Redevelopment (Weis Relocation)	2,400,000	Under Construction
Westgate Mall Redevelopment (Gas Kiosk & Canopy)	815,000	Plans Submitted
Royal Farms Market/Gas Station - 2355 Avenue A	8,000,000	Plans Submitted
Wawa Gas Station/Conv. Store, 774-784 Hellertown Rd	6,000,000	Plans Submitted
Autozone, 505 Wyandotte Street	2,600,000	Plans Submitted
Wilbur Mansion Hotel & Event Center 202 Wyandotte St	1,800,000	Plans Approved
Commercial Subtotal	161,615,000	
Grand Total	\$ 786,773,000	

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, 2019

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Assets					
Current assets:					
Cash and cash equivalents	\$ 30,909,509	\$ 23,433,723	\$ 54,343,232	\$ 2,708,695	\$ 57,051,927
Investments	13,195	-	13,195	202,660	215,855
Receivables (net of allowance for uncollectibles):					
Taxes	4,152,025	-	4,152,025	-	4,152,025
Accounts	883,652	8,452,644	9,336,296	553,348	9,889,644
Other	1,118,739	-	1,118,739	222,466	1,341,205
Accrued interest	-	8,042	8,042	-	8,042
Due from other governments	4,430,774	-	4,430,774	-	4,430,774
Internal balances	838,092	(838,092)	-	-	-
Inventories	486,467	286,393	772,860	-	772,860
Prepaid expenses	-	-	-	133,389	133,389
Total current assets	42,832,453	31,342,710	74,175,163	3,820,558	77,995,721
Noncurrent assets:					
Loans receivable	1,247,132	-	1,247,132	-	1,247,132
Restricted cash and cash equivalents	-	9,209,036	9,209,036	2,785,014	11,994,050
Restricted investments	-	7,465,843	7,465,843	11,485,964	18,951,807
Due from other governments	683,500	-	683,500	-	683,500
Capital assets, not being depreciated	9,230,058	4,288,674	13,518,732	5,887,633	19,406,365
Capital assets, net	56,292,276	88,736,817	145,029,093	56,703,135	201,732,228
Other assets	48,628	139,687	188,315	-	188,315
Total noncurrent assets	67,501,594	109,840,057	177,341,651	76,861,746	254,203,397
Total Assets	110,334,047	141,182,767	251,516,814	80,682,304	332,199,118
Deferred Outflows of Resources					
Deferred outflows of resources - pensions	16,617,163	1,821,863	18,439,026	510,104	18,949,130
Deferred outflows of resources - other post-employment benefits	1,229,569	197,136	1,426,705	-	1,426,705
Deferred charge on refunding	10,009,355	203,336	10,212,691	407,604	10,620,295
Total Deferred Outflows of Resources	27,856,087	2,222,335	30,078,422	917,708	30,996,130

(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	1,310,509	1,367,750	2,678,259	515,841	3,194,100
Accrued payroll	1,350,898	246,998	1,597,896	39,036	1,636,932
Accrued vacation and other					
compensated absences	916,657	678,479	1,595,136	15,740	1,610,876
Interest payable	455,208	308,455	763,663	206,799	970,462
Current portion of long-term debt	4,477,000	8,112,172	12,589,172	16,245,000	28,834,172
Current portion of capital lease					
obligations	872,707	80,665	953,372	-	953,372
Current portion of total other					
post-employment benefits liability	661,641	155,114	816,755	-	816,755
Unearned revenue	4,934,486	-	4,934,486	230,189	5,164,675
Escrow liabilities	16,184	-	16,184	-	16,184
Total current liabilities	<u>14,995,290</u>	<u>10,949,633</u>	<u>25,944,923</u>	<u>17,252,605</u>	<u>43,197,528</u>
Noncurrent liabilities:					
Accrued vacation and other					
compensated absences, net of					
current portion	3,446,864	-	3,446,864	-	3,446,864
Accrued sick pay	-	87,339	87,339	-	87,339
Long-term debt, net of current portion	110,752,940	101,021,880	211,774,820	24,941,384	236,716,204
Capital lease obligation, net of					
current portion	3,432,550	23,097	3,455,647	-	3,455,647
Net pension liability	52,226,772	5,268,832	57,495,604	824,024	58,319,628
Total other post-employment					
benefits liability	13,470,831	2,328,803	15,799,634	-	15,799,634
Unearned revenue	-	3,524,445	3,524,445	83,332	3,607,777
Total noncurrent liabilities	<u>183,329,957</u>	<u>112,254,396</u>	<u>295,584,353</u>	<u>25,848,740</u>	<u>321,433,093</u>
Total Liabilities	<u>198,325,247</u>	<u>123,204,029</u>	<u>321,529,276</u>	<u>43,101,345</u>	<u>364,630,621</u>
Deferred Inflows of Resources					
Deferred inflows of resources - pensions	8,284,107	-	8,284,107	26,004	8,310,111
Deferred inflows of					
resources - other post-employment					
benefits	414,362	60,162	474,524	-	474,524
Deferred gain on refunding	-	175,409	175,409	-	175,409
Total Deferred Inflows	<u>8,698,469</u>	<u>235,571</u>	<u>8,934,040</u>	<u>26,004</u>	<u>8,960,044</u>
of Resources					
Net Position					
Net investment in capital assets	38,517,348	3,257,493	41,774,841	32,603,887	74,378,728
Restricted	1,537,397	-	1,537,397	2,214,595	3,751,992
Unrestricted	(108,888,327)	16,708,009	(92,180,318)	3,654,181	(88,526,137)
Total Net Position	<u>\$ (68,833,582)</u>	<u>\$ 19,965,502</u>	<u>\$ (48,868,080)</u>	<u>\$ 38,472,663</u>	<u>\$ (10,395,417)</u>

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

Function/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 947,166	\$ -	\$ -	\$ -
Administrative	1,459,404	248,754	-	-
Community development	7,680,697	4,654,807	3,145,205	178,920
Parks and public property	2,625,506	946,928	49,568	789,791
Public works	14,869,405	1,471,596	2,223,280	35,941
Police	24,683,827	2,204,881	1,559,100	89,428
Fire	16,430,920	4,020,033	13,155	-
General expenditures	10,379,982	-	-	-
Civic	127,890	-	-	-
Library	1,617,086	-	-	44,578
Program expenditures	1,540,624	-	1,787,802	-
Interest on long-term debt	5,239,134	-	-	-
Total governmental activities	87,601,641	13,546,999	8,778,110	1,138,658
Business-type activities:				
Water Fund	19,909,684	21,494,809	-	-
Sewer Fund	14,427,340	18,564,087	-	27,556
Other non-major fund	1,148,573	1,483,430	-	-
Total business-type activities	35,485,597	41,542,326	-	27,556
Total primary government	\$ 123,087,238	\$ 55,089,325	\$ 8,778,110	\$ 1,166,214
Component units:				
Bethlehem Parking Authority	\$ 7,303,535	\$ 7,607,345	\$ -	\$ -
Bethlehem Public Library	3,452,732	188,160	2,761,309	188,104
Bethlehem Redevelopment Authority	8,488,669	-	51,895	13,358,331
Total component units	\$ 19,244,936	\$ 7,795,505	\$ 2,813,204	\$ 13,546,435

General Revenues:

Real estate taxes and other taxes

Grants and other charges not restricted
to specific programs

Sale of capital assets

Investment income

Transfers

Total general revenues and transfers

Change in Net Position

Net Position:

Beginning of year

End of year

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

Net (Expense) Revenue and
Changes in Net Position

Primary Government			Component Units	Total Reporting Entity
Governmental Activities	Business-Type Activities	Total		
\$ (947,166)	\$ -	\$ (947,166)	\$ -	\$ (947,166)
(1,210,650)	-	(1,210,650)	-	(1,210,650)
298,235	-	298,235	-	298,235
(839,219)	-	(839,219)	-	(839,219)
(11,138,588)	-	(11,138,588)	-	(11,138,588)
(20,830,418)	-	(20,830,418)	-	(20,830,418)
(12,397,732)	-	(12,397,732)	-	(12,397,732)
(10,379,982)	-	(10,379,982)	-	(10,379,982)
(127,890)	-	(127,890)	-	(127,890)
(1,572,508)	-	(1,572,508)	-	(1,572,508)
247,178	-	247,178	-	247,178
(5,239,134)	-	(5,239,134)	-	(5,239,134)
<u>(64,137,874)</u>	<u>-</u>	<u>(64,137,874)</u>	<u>-</u>	<u>(64,137,874)</u>
-	1,585,125	1,585,125	-	1,585,125
-	4,164,303	4,164,303	-	4,164,303
-	334,857	334,857	-	334,857
<u>-</u>	<u>6,084,285</u>	<u>6,084,285</u>	<u>-</u>	<u>6,084,285</u>
<u>(64,137,874)</u>	<u>6,084,285</u>	<u>(58,053,589)</u>	<u>-</u>	<u>(58,053,589)</u>
-	-	-	303,810	303,810
-	-	-	(315,159)	(315,159)
<u>-</u>	<u>-</u>	<u>-</u>	<u>4,921,557</u>	<u>4,921,557</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>4,910,208</u>	<u>4,910,208</u>
44,308,727	-	44,308,727	-	44,308,727
15,281,875	-	15,281,875	-	15,281,875
780,581	-	780,581	-	780,581
672,898	1,154,961	1,827,859	513,833	2,341,692
3,104,597	(3,104,597)	-	-	-
<u>64,148,678</u>	<u>(1,949,636)</u>	<u>62,199,042</u>	<u>513,833</u>	<u>62,712,875</u>
10,804	4,134,649	4,145,453	5,424,041	9,569,494
<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>
<u>\$ (68,833,582)</u>	<u>\$ 19,965,502</u>	<u>\$ (48,868,080)</u>	<u>\$ 38,472,663</u>	<u>\$ (10,395,417)</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2019

	General Fund	Non-Utility Capital Improvements Fund	Debt Service Fund	Other Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 15,025,343	\$ 11,739,694	\$ -	\$ 4,088,665	\$ 30,853,702
Investments	-	13,195	-	-	13,195
Receivables:					
Taxes	4,152,025	-	-	-	4,152,025
Accounts	883,652	-	-	-	883,652
Loans	-	-	-	1,247,132	1,247,132
Other	1,115,210	3,529	-	-	1,118,739
Due from other funds	1,149,986	112,928	-	-	1,262,914
Due from other governments	4,459,331	542,297	-	112,646	5,114,274
Total Assets	\$ 26,785,547	\$ 12,411,643	\$ -	\$ 5,448,443	\$ 44,645,633
Liabilities, Deferred Inflows of Resources, and Fund Balance					
Liabilities:					
Accounts payable and other accrued expenses	\$ 545,044	\$ 478,783	\$ -	\$ 214,819	\$ 1,238,646
Accrued payroll	1,346,967	-	-	3,931	1,350,898
Accrued vacation and other compensated absences	910,032	-	-	6,625	916,657
Due to other funds	89,518	65,570	-	272,096	427,184
Escrow liabilities	16,184	-	-	-	16,184
Unearned revenues	247,803	732,154	-	3,954,529	4,934,486
Total Liabilities	3,155,548	1,276,507	-	4,452,000	8,884,055
Deferred Inflows of Resources:					
Unavailable revenue - sale proceeds	1,025,250	-	-	-	1,025,250
Unavailable revenue - taxes	2,135,675	-	-	-	2,135,675
Total Deferred Inflows of Resources	3,160,925	-	-	-	3,160,925
Fund Balance:					
Restricted for:					
Parks and public property	77,858	-	-	-	77,858
Community development	238,874	-	-	-	238,874
Capital projects	-	9,510,499	-	-	9,510,499
Public works	-	-	-	996,443	996,443
Police	224,222	-	-	-	224,222
Assigned for capital projects	3,000,000	1,624,637	-	-	4,624,637
Assigned for 2020 budget (COVID)	1,000,000	-	-	-	1,000,000
Unassigned	15,928,120	-	-	-	15,928,120
Total Fund Balance	20,469,074	11,135,136	-	996,443	32,600,653
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 26,785,547	\$ 12,411,643	\$ -	\$ 5,448,443	\$ 44,645,633

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, 2019

Total Fund Balance - Governmental Funds	\$ 32,600,653
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.	65,522,334
Deferred outflows related to pensions	16,617,163
Deferred outflows related to other post-employment benefits	1,229,569
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.	2,135,675
Sale proceeds not collected within a period of time subsequent to year-end are recognized as revenue in the statement of net position.	1,025,250
Inventory is recorded on the statement of net position.	486,467
Accrued vacation and other compensated absences not due within the next twelve months are recorded on the statement of net position.	(3,446,864)
Net pension liability and deferred inflows related to pensions	(60,510,879)
Total other post-employment benefits liability and deferred inflows related to other post-employment benefits	(14,546,834)
Prepaid bond insurance and deferred charge on refunding are amortized on the statement of net position.	10,057,983
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	(115,229,940)
Capital leases	(4,305,257)
Accrued interest payable is included on the statement of net position.	(455,208)
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.	(13,694)
Net Position - Governmental Activities	<u><u>\$ (68,833,582)</u></u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2019

	General Fund	Non-Utility Capital Improvements Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 44,002,152	\$ 317,028	\$ -	\$ -	\$ 44,319,180
Licenses and permits	3,345,203	-	-	-	3,345,203
Intergovernmental revenues	8,859,899	976,954	-	4,928,434	14,765,287
Fines and forfeitures	445,880	-	-	-	445,880
Departmental earnings	7,744,841	-	-	-	7,744,841
Other charges	1,248,307	-	-	-	1,248,307
Municipal recreation	769,006	-	-	-	769,006
Investment income	479,814	136,057	-	57,027	672,898
Host fee	9,804,501	-	-	-	9,804,501
Other	367,445	106,793	-	202,390	676,628
Total revenues	<u>77,067,048</u>	<u>1,536,832</u>	<u>-</u>	<u>5,187,851</u>	<u>83,791,731</u>
Expenditures:					
Current:					
General government	827,011	-	-	-	827,011
Administrative	1,003,908	-	-	-	1,003,908
Community development	6,801,124	-	-	-	6,801,124
Parks and public property	441,199	-	-	-	441,199
Public works	8,302,246	-	-	2,240,803	10,543,049
Police	20,696,620	-	-	1,764,395	22,461,015
Fire	14,804,346	-	-	-	14,804,346
General expenditures	10,378,735	65,320	-	-	10,444,055
Civic	127,890	-	-	-	127,890
Library	1,381,731	-	-	-	1,381,731
Program expenditures	-	-	-	1,796,210	1,796,210
Capital outlays	-	7,182,408	-	-	7,182,408
Debt service - principal	940,249	5,144,473	5,858,000	-	11,942,722
Debt service - interest	143,017	863,522	4,136,911	-	5,143,450
Total expenditures	<u>65,848,076</u>	<u>13,255,723</u>	<u>9,994,911</u>	<u>5,801,408</u>	<u>94,900,118</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>11,218,972</u>	<u>(11,718,891)</u>	<u>(9,994,911)</u>	<u>(613,557)</u>	<u>(11,108,387)</u>
Other Financing Sources (Uses):					
Capital lease	267,934	-	-	-	267,934
Debt issued	-	9,485,000	-	-	9,485,000
Refunding debt issued	-	55,090,000	-	-	55,090,000
Payments to refunded bond escrow agent	-	(54,488,737)	-	-	(54,488,737)
Original issue premium	-	72,121	-	-	72,121
Sale of capital assets	272,096	-	-	69,654	341,750
Transfers in	1,910,172	5,155,000	9,994,911	750,000	17,810,083
Transfers out	(12,492,311)	(57,757)	-	(2,155,418)	(14,705,486)
Total other financing sources (uses)	<u>(10,042,109)</u>	<u>15,255,627</u>	<u>9,994,911</u>	<u>(1,335,764)</u>	<u>13,872,665</u>
Net Change in Fund Balance	<u>1,176,863</u>	<u>3,536,736</u>	<u>-</u>	<u>(1,949,321)</u>	<u>2,764,278</u>
Fund Balance:					
Beginning of the year	19,292,211	7,598,400	-	2,945,764	29,836,375
End of the year	<u>\$ 20,469,074</u>	<u>\$ 11,135,136</u>	<u>\$ -</u>	<u>\$ 996,443</u>	<u>\$ 32,600,653</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA
**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2019

Net Change in Fund Balance - Governmental Funds	\$ 2,764,278
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 (\$8,056,769) were less than depreciation (\$9,121,597) and loss on disposals (\$631,460) in the current period.	(1,696,288)
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.	(109,042)
Revenues related to sale of capital assets in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,025,250
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	(267,934)
Issuance of bonds	(64,575,000)
Payments to refunded bond escrow agent	54,488,737
Repayment of principal	11,942,722
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.	252,098
Change in deferred outflows of resources related to pensions in the statement of activities.	(8,673,292)
Change in deferred outflows of resources related to other post-employment benefits in the statement of activities.	(184,217)
Change in inventory in the statement of activities.	25,150
Change in accrued vacation and other compensated absences not due within the next twelve months in the statement of activities.	(51,547)
Change in net pension liability and deferred inflows of resources related to pensions in the statement of activities.	5,809,483
Change in other post-employment benefits liability and deferred inflows of resources related to other post-employment benefits in the statement of activities.	(383,764)
Governmental funds report the effect of bond insurance, premiums, discounts, deferred charges on refunding, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.	(419,903)
Activities of the internal service fund are reported as net loss within the statement of activities.	64,073
Change in Net Position - Governmental Activities	\$ 10,804

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - PROPRIETARY FUNDS

DECEMBER 31, 2019

Assets and Deferred Outflows of Resources	Enterprise Funds				Internal Service	
	Water Fund	Sewer Fund	Other Enterprise Fund			Total
			Municipal Golf Fund	Total		
Assets:						
Current assets:						
Cash and cash equivalents	\$ 5,477,468	\$ 17,049,349	\$ 906,906	\$ 23,433,723	\$ 55,807	
Accounts receivable, net	3,754,980	4,684,924	12,740	8,452,644	-	
Accrued interest	8,042	-	-	8,042	-	
Due from other funds	-	75,570	10,570	86,140	3,028	
Inventories	225,347	48,962	12,084	286,393	-	
Total current assets	9,465,837	21,858,805	942,300	32,266,942	58,835	
Restricted assets:						
Cash and cash equivalents	9,209,036	-	-	9,209,036	-	
Investments	7,465,843	-	-	7,465,843	-	
Capital assets, not being depreciated	1,464,798	2,648,876	175,000	4,288,674	-	
Capital assets, net	65,184,788	22,315,630	1,236,399	88,736,817	-	
Other assets	139,687	-	-	139,687	-	
Total Assets	92,929,989	46,823,311	2,353,699	142,106,999	58,835	
Deferred Outflows of Resources:						
Deferred outflows of resources - pensions	796,508	915,023	110,332	1,821,863	-	
Deferred outflows of resources - other post-employment benefits	124,507	65,712	6,917	197,136	-	
Deferred charge on refunding	-	203,336	-	203,336	-	
Total Deferred Outflows of Resources	921,015	1,184,071	117,249	2,222,335	-	
Total Assets and Deferred Outflows of Resources	\$ 93,851,004	\$ 48,007,382	\$ 2,470,948	\$ 144,329,334	\$ 58,835	

(Continued)

Liabilities, Deferred Inflows of Resources, and Net Position	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Liabilities:					
Current liabilities:					
Accounts payable and other accrued expenses	\$ 120,804	\$ 426,936	\$ 269,815	\$ 817,555	\$ 71,863
Accrued payroll	115,292	122,433	9,273	246,998	-
Accrued vacation and other compensated absences	371,749	275,942	30,788	678,479	-
Construction accounts payable	550,195	-	-	550,195	-
Interest payable	230,745	67,677	10,033	308,455	-
Current portion of long-term debt	6,686,472	1,360,700	65,000	8,112,172	-
Current portion of capital lease obligation	80,665	-	-	80,665	-
Current portion of total other post-employment benefits liability	97,967	51,705	5,442	155,114	-
Due to other funds	20,570	-	903,662	924,232	666
Total current liabilities	8,274,459	2,305,393	1,294,013	11,873,865	72,529
Accrued sick pay	36,222	43,314	7,803	87,339	-
Long-term debt, net	74,790,925	24,575,955	1,655,000	101,021,880	-
Capital lease obligation, net	23,097	-	-	23,097	-
Net pension liability	2,305,114	2,634,416	329,302	5,268,832	-
Total other post-employment benefits liability	1,470,823	776,267	81,713	2,328,803	-
Unearned revenue	386,400	3,138,045	-	3,524,445	-
Total Liabilities	87,287,040	33,473,390	3,367,831	124,128,261	72,529
Deferred Inflows of Resources:					
Deferred inflows of resources - other post-employment benefits	37,997	20,054	2,111	60,162	-
Deferred gain on refunding	175,409	-	-	175,409	-
Total Deferred Inflows of Resources	213,406	20,054	2,111	235,571	-
Net Position:					
Net investment in capital assets	1,157,389	2,408,705	(308,601)	3,257,493	-
Unrestricted	5,193,169	12,105,233	(590,393)	16,708,009	(13,694)
Total Net Position	6,350,558	14,513,938	(898,994)	19,965,502	(13,694)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 93,851,004	\$ 48,007,382	\$ 2,470,948	\$ 144,329,334	\$ 58,835

(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, 2019

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Operating Revenues:					
Charges for services	\$ 20,728,736	\$ 16,205,483	\$ 1,345,692	\$ 38,279,911	\$ 11,796,321
Operating Expenses:					
Salaries, wages, and fringe benefits	4,624,429	4,414,456	465,013	9,503,898	-
Professional fees	833,385	205,661	2,600	1,041,646	-
Utilities	246,290	659,465	34,401	940,156	-
Maintenance and repairs	179,324	383,021	54,316	616,661	-
Department contracts	402,350	705,709	26,359	1,134,418	-
Supplies	420,500	536,511	210,864	1,167,875	-
Service charges	3,148,759	2,817,662	195,891	6,162,312	-
Depreciation and amortization	5,460,035	3,905,941	67,020	9,432,996	-
Insurance claims	-	-	-	-	11,966,881
Administration	-	-	-	-	8,570
Other	382,691	150,309	64,915	597,915	-
Total operating expenses	15,697,763	13,778,735	1,121,379	30,597,877	11,975,451
Operating Income (Loss)	5,030,973	2,426,748	224,313	7,682,034	(179,130)
Non-Operating Revenues (Expenses):					
Investment income	916,746	230,696	7,519	1,154,961	750
Interest expense	(4,211,921)	(648,605)	(27,194)	(4,887,720)	-
Tapping fees	-	1,252,805	-	1,252,805	-
Other revenues	766,073	1,133,355	137,738	2,037,166	242,453
Total non-operating revenues (expenses)	(2,529,102)	1,968,251	118,063	(442,788)	243,203
Change in net position before transfers	2,501,871	4,394,999	342,376	7,239,246	64,073
Transfers out	(660,112)	(2,396,326)	(48,159)	(3,104,597)	-
Change in Net Position	1,841,759	1,998,673	294,217	4,134,649	64,073
Net Position:					
Beginning of year	4,508,799	12,515,265	(1,193,211)	15,830,853	(77,767)
End of year	<u>\$ 6,350,558</u>	<u>\$ 14,513,938</u>	<u>\$ (898,994)</u>	<u>\$ 19,965,502</u>	<u>\$ (13,694)</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2019

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Cash Flows From Operating Activities:					
Receipts from customers	\$ 21,362,530	\$ 16,788,397	\$ 1,338,452	\$ 39,489,379	\$ 11,793,293
Payments to suppliers for services	(5,648,360)	(5,485,519)	(601,270)	(11,735,149)	(12,033,357)
Payment to employees	(4,266,271)	(3,887,275)	(608,890)	(8,762,436)	-
Net cash provided by (used in) operating activities	11,447,899	7,415,603	128,292	18,991,794	(240,064)
Cash Flows From Noncapital Financing Activities:					
Transfers out	(660,112)	(2,396,326)	(48,159)	(3,104,597)	-
Other revenues received	749,273	1,836,399	137,738	2,723,410	242,453
Net cash provided by (used in) noncapital financing activities	89,161	(559,927)	89,579	(381,187)	242,453
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(2,022,040)	(2,612,345)	(970,971)	(5,605,356)	-
Principal payments on debt	(6,509,000)	(6,249,496)	(65,000)	(12,823,496)	-
Interest payments on debt	(2,575,565)	(632,467)	(17,924)	(3,225,956)	-
Principal payments on capital lease obligations	(131,372)	-	(8,661)	(140,033)	-
Tapping fees	-	922,612	-	922,612	-
Proceeds from issuance of debt	-	4,715,000	1,654,266	6,369,266	-
Net cash provided by (used in) capital and related financing activities	(11,237,977)	(3,856,696)	591,710	(14,502,963)	-
Cash Flows From Investing Activities:					
Net purchase of investments	(908,940)	-	-	(908,940)	-
Interest and dividends on investments	916,746	230,696	7,519	1,154,961	750
Net cash provided by investing activities	7,806	230,696	7,519	246,021	750
Net Increase (Decrease) in Cash and Cash Equivalents	306,889	3,229,676	817,100	4,353,665	3,139
Cash and Cash Equivalents:					
Beginning of year	14,379,615	13,819,673	89,806	28,289,094	52,668
End of year	<u>\$ 14,686,504</u>	<u>\$ 17,049,349</u>	<u>\$ 906,906</u>	<u>\$ 32,642,759</u>	<u>\$ 55,807</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, 2019
(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)	\$ 5,030,973	\$ 2,426,748	\$ 224,313	\$ 7,682,034	\$ (179,130)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	5,460,035	3,905,941	67,020	9,432,996	-
Changes in balance sheet accounts:					
Accounts receivable	613,224	603,484	-	1,216,708	-
Inventories	(22,713)	8,472	6,385	(7,856)	-
Due from other funds	-	(20,570)	-	(20,570)	(3,028)
Other assets	-	-	(7,240)	(7,240)	-
Deferred outflows of resources - pensions	110,255	120,131	135,160	365,546	-
Deferred outflows of resources - other post-employment benefits liability	(840)	(443)	6,824	5,541	-
Accrued vacation and other compensated absences	(60,936)	11,515	(5,774)	(55,195)	-
Accrued payroll	9,790	27,710	1,250	38,750	-
Accounts payable and other accrued expenses	(12,348)	(35,653)	(18,309)	(66,310)	(58,572)
Due to other funds	20,570	-	-	20,570	666
Unearned revenue	-	-	-	-	-
Net pension liability	1,994,506	2,282,393	246,473	4,523,372	-
Total OPEB liability	8,553	4,515	(86,204)	(73,136)	-
Deferred inflows of resources - pensions	(1,741,167)	(1,938,694)	(443,717)	(4,123,578)	-
Deferred inflows of resources - other post-employment benefits liability	37,997	20,054	2,111	60,162	-
Net cash provided by (used in) operating activities	<u>\$ 11,447,899</u>	<u>\$ 7,415,603</u>	<u>\$ 128,292</u>	<u>\$ 18,991,794</u>	<u>\$ (240,064)</u>
Non-cash Capital and Related Financing Activities:					
Accretion of capital appreciation bonds	<u>\$ 2,062,909</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,062,909</u>	<u>\$ -</u>
Issuance of capital lease	<u>\$ 69,880</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,880</u>	<u>\$ -</u>

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2019

	Employee Benefit Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ -	\$ 1,458,306
Interest and dividends receivable	305,206	-
Investments	168,164,072	-
Total Assets	168,469,278	1,458,306
Liabilities		
Escrow liabilities	-	1,458,306
Total Liabilities	-	\$ 1,458,306
Net Position		
Restricted for employees' retirement benefits	168,469,278	
Total Net Position	\$ 168,469,278	

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, 2019

	<u>Employee Benefit Trust Fund</u>
Additions:	
<hr/>	
Contributions:	
Employee contributions	\$ 1,577,205
Employer contributions	<u>8,700,434</u>
Total contributions	<u>10,277,639</u>
Investment earnings (losses):	
Investment income	2,410,136
Realized and unrealized gains, net	<u>23,463,643</u>
Total investment earnings	25,873,779
Less investment expense	<u>(689,960)</u>
Net investment earnings (losses)	<u>25,183,819</u>
Total additions	<u>35,461,458</u>
Deductions:	
<hr/>	
Benefits paid	<u>12,469,970</u>
Total deductions	<u>12,469,970</u>
Change in Net Position	22,991,488
Net Position:	
<hr/>	
Beginning of year	<u>145,477,790</u>
End of year	<u><u>\$ 168,469,278</u></u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2019

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority *	Total
Assets and Deferred Outflows of Resources				
<hr/>				
Assets:				
Current assets:				
Cash and cash equivalents	\$ 2,175,140	\$ 102,223	\$ 431,332	\$ 2,708,695
Investments	1,282	201,378	-	202,660
Accounts receivable, net	553,348	-	-	553,348
Other receivables	28,997	-	193,469	222,466
Prepaid expenses	133,389	-	-	133,389
	2,892,156	303,601	624,801	3,820,558
Total current assets	2,892,156	303,601	624,801	3,820,558
Restricted cash and cash equivalents	-	-	2,785,014	2,785,014
Restricted investments	1,468,684	2,064,173	7,953,107	11,485,964
Capital assets, not being depreciated	5,882,633	5,000	-	5,887,633
Capital assets, net	28,310,167	181,336	28,211,632	56,703,135
	38,553,640	2,554,110	39,574,554	80,682,304
Total Assets	38,553,640	2,554,110	39,574,554	80,682,304
Deferred Outflows of Resources:				
Deferred outflows of resources - pension	469,181	-	40,923	510,104
Deferred charge on refunding	407,604	-	-	407,604
	876,785	-	40,923	917,708
Total Deferred Outflows of Resources	876,785	-	40,923	917,708
Total Assets and Deferred Outflows of Resources	\$ 39,430,425	\$ 2,554,110	\$39,615,477	\$81,600,012

(Continued)

* - As of June 30, 2019

	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	\$ 273,966	\$ 160,665	\$ 81,210	\$ 515,841
Accrued payroll	-	39,036	-	39,036
Accrued vacation and other compensated absences	-	15,740	-	15,740
Interest payable	163,748	-	43,051	206,799
Current portion of long-term debt	1,200,000	-	15,045,000	16,245,000
Unearned revenue	230,189	-	-	230,189
Total current liabilities	1,867,903	215,441	15,169,261	17,252,605
Long-term debt, net of current portion	24,941,384	-	-	24,941,384
Unearned revenue	83,332	-	-	83,332
Net pension liability	672,037	-	151,987	824,024
Total Liabilities	27,564,656	215,441	15,321,248	43,101,345
Deferred Inflows of Resources:				
Deferred inflows of resources - pension	184	-	25,820	26,004
Total Deferred Inflows of Resources	184	-	25,820	26,004
Net Position:				
Net investment in capital assets	8,459,020	186,336	23,958,531	32,603,887
Restricted	-	2,214,595	-	2,214,595
Unrestricted	3,406,565	(62,262)	309,878	3,654,181
Total Net Position	11,865,585	2,338,669	24,268,409	38,472,663
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 39,430,425	\$ 2,554,110	\$39,615,477	\$81,600,012

(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, 2019

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	
Bethlehem Parking Authority	\$ 7,303,535	\$ 7,607,345	\$ -	\$ -	\$ 303,810	\$ -	\$ -	\$ 303,810
Bethlehem Public Library	3,452,732	188,160	2,761,309	188,104	-	(315,159)	-	(315,159)
Bethlehem Redevelopment Authority *	8,488,669	-	51,895	13,358,331	-	-	4,921,557	4,921,557
Total Component Units	\$ 19,244,936	\$ 7,795,505	\$ 2,813,204	\$ 13,546,435	303,810	(315,159)	4,921,557	4,910,208
General Revenues:								
				Investment income (loss)	32,066	394,858	86,909	513,833
				Total general revenues	32,066	394,858	86,909	513,833
				Change in Net Position	335,876	79,699	5,008,466	5,424,041
				Net Position:				
				Beginning of year	11,529,709	2,258,970	19,259,943	33,048,622
				End of year	<u>\$ 11,865,585</u>	<u>\$ 2,338,669</u>	<u>\$ 24,268,409</u>	<u>\$ 38,472,663</u>

* - Year ended June 30, 2019

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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 2019 is as follows:

January 1, 2019	original levy date
January 1, 2019 - March 30, 2019	2% discount period
March 31, 2019 - May 31, 2019	face payment period
June 1, 2019 - December 31, 2019	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 2019 millage was 8.61 for general purposes, 4.84 for public safety, 0.45 for 911, 0.05 for recreation, 2.97 for debt service, 0.50 for landfill debt, and 0.80 for library, for properties in Northampton County; and 2.72 for general purposes, 1.53 for public safety, 0.14 for 911, 0.02 for recreation, 0.94 for debt service, 0.16 for landfill debt, and 0.25 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, 2019

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, 2019, the City's LERTA property tax abatements totaled approximately \$957,700.

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, 2019, 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, 2019

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, 2019

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, 2019

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, 2019

Net position of governmental activities is restricted for the following:

Parks and public property	\$	77,858
Community development		238,874
Public works		996,443
Police		<u>224,222</u>
Restricted net position	\$	<u><u>1,537,397</u></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 be used for the same purpose, assigned fund balance is applied first. Unassigned fund balance is applied last.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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.

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, 2020 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, 2020 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, 2022 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, 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, 2022 financial statements.

In May of 2020, the GASB issued Statement No. 96, *“Subscription-Based Information Technology Arrangements.”* This Statements provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

governments. The provisions of this Statement are effective for the City's December 31, 2023 financial statements.

In June of 2020, the GASB issued Statement No. 97, "*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.*" The primary objectives of this Statement are to: (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The provisions of this Statement are effective for the City's December 31, 2022 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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

and the Bethlehem Authority. The City leases the systems for a fixed rental fee. The Bethlehem Authority does not issue separate audited financial statements.

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

Bethlehem 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, 2019, the Parking Authority made contributions to the City's General Fund of \$550,000. Separate financial statements were issued by the Parking Authority and can be obtained by contacting the Parking Authority.

Bethlehem Area Public Library

The Bethlehem Area Public Library (Library) provides library services to the City and nearby communities. The Library is governed by eleven directors, seven of whom are appointed by City Council on the recommendation of the President of City Council. The remaining members are appointed by the governing boards of the municipalities of Fountain Hill, Hanover Township (Northampton County), and Bethlehem Township. The City supports the Library. The City's 2019 appropriation to the Library was \$1,381,731, which represented 39% of the Library's General Fund revenue. Title to the assets of the Library rests with the City directly or indirectly through the Board of Directors. The Library's main facility occupies, without charge, premises located in a building owned by the City. During the year ended December 31, 2019, the Library paid the City \$97,250 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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Redevelopment Authority for general administrative, rehabilitation activities, and property acquisition and demolition. The Redevelopment Authority also accounts for the collection of financing district revenues from the various taxing bodies and pays for construction and construction-related costs associated with various projects within the designated Bethlehem Works Tax Increment Financing (TIF) District. The Redevelopment Authority is governed by five board members who are appointed by the Mayor and approved by City Council. Separate financial statements were issued by the Redevelopment Authority and can be obtained by contacting the Redevelopment Authority.

Related Organizations

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

Bethlehem Housing Authority

The Bethlehem Housing Authority (Housing Authority) has five commissioners who are appointed to staggered, five-year terms by the Mayor with City Council approval. The Housing Authority paid approximately \$404,000 in public safety reimbursements and \$81,000 in lieu of taxes to the City during the year ended December 31, 2019.

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, 2019, BEDCO owes the City \$794,875. There were no payments made on this loan during the year ended December 31, 2019. The loan receivables are recorded in the Community Development Block Grant Fund.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Bethlehem Revitalization and Improvement Authority

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

3. Deposits and Investments

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019, the City's book balance was \$65,010,574 and the bank balance was \$76,389,528. Of the bank balance, \$9,689,917 was covered by federal depository insurance and \$66,699,611 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

Reconciliation to total cash and cash equivalents:	
<hr/>	
Governmental activities:	
Unrestricted	\$ 30,909,509
Business-type activities:	
Unrestricted	23,433,723
Restricted	9,209,036
Fiduciary funds:	
Agency fund	<hr/> 1,458,306
Total cash and cash equivalents	<hr/> <hr/> \$ 65,010,574

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

B. Investments

The fair value of the investments of the City at December 31, 2019 was as follows:

Investments:	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Money market funds	\$ 11,421,533	\$ 11,421,533	\$ -	\$ -
U.S. Government obligations	26,499,846	26,499,846	-	-
U.S. Government agency obligations	2,838,418	2,838,418	-	-
Municipal bonds	257,701	-	257,701	-
Corporate bonds and notes	12,702,784	-	12,702,784	-
Equity mutual funds:				
Domestic	11,057,244	11,057,244	-	-
International	25,047,985	25,047,985	-	-
Equities:				
Information technology	9,111,613	9,111,613	-	-
Financials	8,220,644	8,220,644	-	-
Consumer staples	3,071,261	3,071,261	-	-
Industrials	6,607,295	6,607,295	-	-
Consumer discretionary	4,637,436	4,637,436	-	-
Health care	5,635,403	5,635,403	-	-
Energy	1,308,251	1,308,251	-	-
Materials	1,393,491	1,393,491	-	-
Telecommunications	3,514,939	3,514,939	-	-
Utilities	985,270	985,270	-	-
Other	1,059,448	1,059,448	-	-
Limited partnerships	27,119,331	-	-	27,119,331
Real estate equity fund	8,527,051	-	-	8,527,051
Total investments by fair value level	171,016,944	\$ 122,410,077	\$ 12,960,485	\$ 35,646,382
Investments measured at net asset value:				
External investment pool	2,070,515			
Real estate investment trusts	2,555,651			
Total investments measured at fair value	\$ 175,643,110			

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

<u>Reconciliation to total investments</u>	
Governmental activities:	
Unrestricted	\$ 13,195
Business-type activities:	
Restricted	7,465,843
Fiduciary funds:	
Employee Benefit Trust Fund	<u>168,164,072</u>
Total investments	<u>\$ 175,643,110</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, 2019, the City's Employee Benefit Trust Fund was invested in Hamilton Lane Co-Investment Fund III, LP, a limited partnership, in the amount of \$4,577,881. 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. Because Holdings' investments are in private equity and equity-related investments that are generally not publicly traded, market quotations are not available to be used for valuation purposes. Holdings is required to value these investments at estimated fair values using 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. For investments held by the portfolio and investments that are publicly traded and for which market quotations are available, valuations are generally based on the closing sales prices, or an average of the closing bid and ask prices,

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2019

as of the valuation date. 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, 2019, the City's Employee Benefit Trust Fund was invested in Hamilton Lane Co-Investment Fund IV, LP, a limited partnership, in the amount of \$3,071,471. 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. Because Holdings' investments are in private equity and equity-related investments that are generally not publicly traded, market quotations are not available to be used for valuation purposes. Holdings is required to value these investments at estimated fair values using 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. For investments had by the portfolio investments that are publicly traded and for which market quotations are available, valuations are generally based on the closing sales prices, or an average of the closing bid and ask prices, as of the valuation date. 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, 2019, the City's Employee Benefit Trust Fund was invested in NB Crossroads Fund XX – Asset Allocation LP, a limited partnership, in the amount of \$9,493,665. 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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 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, 2019, the City's Employee Benefit Trust Fund was invested in Adams Street Co-Investment Fund IV, LP, a limited partnership, in the amount of \$1,298,423. The Adams Street Co-Investment Fund IV, LP (Fund) 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, the input used is the practical expedient. 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.

CITY OF BETHLEHEM, PENNSYLVANIA

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At December 31, 2019, the City's Employee Benefit Trust Fund was invested in Boyd Watterson GSA Fund, L.P., a limited partnership, in the amount of \$8,677,891. The Boyd Watterson GSA Fund, L.P. was formed for the purpose of acquiring, developing, owning, and operating a diversified portfolio of real estate investments in commercial property. Real estate investment value is based on estimated fair values. Estimated value considers the financial aspects of property, market transactions, and the relative yield for an asset as measured against alternative investments. Real estate and improvements are valued giving consideration to the income, cost, and sales comparison methods. The income approach estimates an income stream for a property (typically 10 years) and discounts this income plus reversion (presumed sale) into a present value at a risk adjusted rate. Yield rates and growth assumptions utilized in this approach are derived from market transactions as well as other financial and industry data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. Generally, this approach provides a check on the value derived using the income approach. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for dissimilarities which typically provide a range of value. Both income approach and sales comparison were used to value all of the commercial real estate investments for the year ended December 31, 2019. The terminal cap rate, overall cap rate, discount rate and term of the discounted cash flow analysis as well as other market specific inputs are significant inputs to these valuations. These rates are based on the location, type and nature of each property, and current and anticipated market conditions. Significant increases in discount or capitalization rates in isolation would result in a significantly lower fair value measurement. Significant decreases in discount or capitalization rates in isolation would result in a significantly higher fair value measurement. Each property is appraised at regular intervals by a qualified independent appraiser(s) that have the MAI designation (Member Appraisal Institute). Certain properties are recorded at appraised value. The properties were appraised by independent external appraisers and reviewed and approved by management. In accordance with the Fund's limited partnership agreement, profits, losses, or any other items allocable to any period are allocated among the Partners pro rata in proportion to the number of units held by each Partner. A total of 1,716,448 controlling units are issued and outstanding as of December 31, 2019. The net asset value per unit calculation is based on the provisions of the Private Placement Memorandum and Operating Agreement. The advisor estimates the net asset value per unit to be \$1,168.10 as of December 31, 2019.

Real estate equity fund

At December 31, 2019, 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

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of \$8,527,051. The fund invests in a diversified portfolio of institutional-quality real estate assets and 100 percent union-built new construction properties. The fund's real estate investments are stated at fair value as determined by the Trustees quarterly, utilizing independent third-party appraisals. Real estate investments are affected by, among other things, availability of capital, capitalization rates, discount rates, occupancy levels, rental rates, and interest and inflation rates. As a result, determining real estate investment values involves many assumptions. The fund's investments in joint ventures are presented on a net basis and stated at estimated fair value, which is derived from the fund's equity in the net assets of the joint venture. Mortgages and other loans receivable are carried at fair value as estimated by the trustee quarterly utilizing independent pricing services, appraisals, available market data, or a discounted cash flow methodology. Redemption requests received in writing from participants are honored at the Trust's next valuation date. Shares are redeemed on a quarterly basis at net asset value per share.

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, 2019, the City held PLGIT/I-Class shares in the amount of \$1,353,327. 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, 2019, the City held PLGIT/PLUS-Class shares in the amount of \$717,188. 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, 2019, 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,

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

although the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Real estate investment trusts (REIT)

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

<u>Real Estate Investment Trusts</u>	<u>Fair Value</u>
Agree Realty Corporation	\$ 303,274
Americold Realty Trust	277,430
AvalonBay Communities	62,910
CBRE Group Inc.	42,903
Crown Castle International Corporation	46,910
First Industrial Realty Trust	263,422
Host Hotels and Resorts, Inc.	38,955
Kimco Realty	51,775
Mid-America Apartment Communities	39,558
National Storage Affiliates	213,588
New Residential Investment Corporation	299,775
Prologis, Inc.	69,529
Rexford Industrial Realty, Inc.	298,088
Stag Industrial	305,219
The Howard Hughes Corporation	242,315
Total real estate investment trusts	<u>\$ 2,555,651</u>

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

Americold Realty Trust's focus is on the ownership, operation, acquisition, and development of temperature-controlled warehouses.

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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CBRE Group Inc.'s focus is 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.

Crown Castle International Corporation's focus is on operating and leasing cell towers and route miles of fiber supporting small cells and other fiber solutions across every major U.S. market.

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.

Host Hotels and Resorts own high-quality lodging real estate in growing markets in the U.S.

Kimco Realty owns and operates open-air shopping centers.

Mid-American Apartment Communities' focus is on ownership, management, acquisition, development, and redevelopment of quality apartment communities in the Southeast, Southwest, and mid-Atlantic regions of the United States.

National Storage Affiliates' focus is on ownership, operations, and acquisition of high quality regional self-storage facilities located within high growth markets.

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.

The Howard Hughes Corporation's focus is in three complementary business segments; operating assets; master planned communities (MPC); and strategic developments.

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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, \$93,856,810 are held by the counterparty's trust department or agent in the City's name, \$5,408,523 are held by the counterparty's trust department or agent not in the name of the City, and the remaining balance of \$76,377,777 is not exposed to custodial credit risk because the investments are not evidenced by securities in book entry or paper form.

Foreign Currency Risk. The City's limited partnership investments hold certain portfolio investments that are in currencies other than U.S. dollars. The value of the investments dominated in currencies other than U.S. dollars are translated into U.S. dollars at the date of valuation. The acquisition cost of the investments dominated in currencies other than U.S. dollars were translated into U.S. dollars on the date of acquisition.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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, 2019:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 2,570,105	AAA
Money market funds	8,851,428	Unrated
U.S. Government agency obligations	2,528,149	AAA
U.S. Government agency obligations	310,269	Not rated
Municipal bonds	125,906	A+
Municipal bonds	131,795	AA-
Corporate bonds and notes	1,027,400	AAA
Corporate bonds and notes	61,525	AA
Corporate bonds and notes	364,734	AA-
Corporate bonds and notes	298,823	A+
Corporate bonds and notes	1,232,636	A
Corporate bonds and notes	3,250,350	A-
Corporate bonds and notes	3,390,396	BB+
Corporate bonds and notes	2,909,679	BBB
Corporate bonds and notes	167,241	BBB-
External investment pool	2,070,515	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, 2019, the City does not hold more than five percent of the City's investments in any one issuer.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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			
		2020	2021-2025	2026-2030	2031 and beyond
Money market funds	\$ 11,421,533	\$ 11,421,533	\$ -	\$ -	\$ -
U.S. Government obligations	26,499,846	6,091,230	15,417,372	4,987,366	3,878
U.S. Government agency obligations	2,838,418	2,528,149	310,269	-	-
Municipal bonds	257,701	125,906	131,795	-	-
Corporate bonds and notes	12,702,784	1,285,372	9,285,177	2,132,235	-
External investment pool	2,070,515	2,070,515	-	-	-
	<u>\$ 55,790,797</u>	<u>\$ 23,522,705</u>	<u>\$ 25,144,613</u>	<u>\$ 7,119,601</u>	<u>\$ 3,878</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, 2019, the Parking Authority's book balance was \$2,175,140 and the bank balance was \$2,221,810. Of the bank balance at

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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December 31, 2019, \$251,136 was covered by federal depository insurance and \$1,970,674 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, 2019 was \$1,468,684.

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

At December 31, 2019, the Parking Authority had \$1,282 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.

CITY OF BETHLEHEM, PENNSYLVANIA

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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, 2019, 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, 2019, 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, 2019, the Library's book balance was \$102,223 and the bank balance was \$304,370. \$250,000 of the bank balance was covered by federal depository insurance and the remaining balance is covered by Act 72.

B. Investments

The Library's investments are considered Level 1 based on active market quotes. The fair value of the investments of the Library at December 31, 2019 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 620,192
Equities	<u>1,645,359</u>
Total investments	<u>\$ 2,265,551</u>

Custodial credit risk – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Library does not have an investment policy for custodial credit risk. The Library's investment in corporate bonds and equities are held by the financial institution, not in the Library's name. The Library's remaining investments are not exposed to custodial credit risk, because they are not evidenced by securities in book entry or paper form.

CITY OF BETHLEHEM, PENNSYLVANIA

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Credit risk – The Library does not have a formal policy that would limit its investment choices with regard to credit risk. The Library’s investments had the following level of exposure to credit risk as of December 31, 2019:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 620,192	Unrated

Concentration of credit risk – The Library places no limit on the amount the Library may invest in any one issuer. At December 31, 2019, 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>2020</u>	<u>2021-2025</u>
Money market funds	\$ 620,192	\$ 620,192	\$ -

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.

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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, 2019, the Redevelopment Authority's book balance was \$3,216,346 and the bank balance was \$3,241,462. Of the bank balance at June 30, 2019, \$250,000 was covered by federal depository insurance and \$2,991,462 was collateralized under the Act, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

B. Investments

The Redevelopment Authority's investments are considered Level 1 based on quoted market prices. The fair value of the Redevelopment Authority's money market funds at June 30, 2019 was \$7,953,107.

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, 2019, 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, 2019.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019 the Redevelopment Authority's money market funds have a maturity of less than one year.

C. Restricted Cash, Cash Equivalents, and Investments

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

4. Capital Assets

A summary of changes in capital assets follows:

	<u>January 1, 2019</u>	<u>Additions and Transfers In</u>	<u>Disposals and Transfers Out</u>	<u>December 31, 2019</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,752,780	\$ -	\$ -	\$ 6,752,780
Construction in progress	741,122	1,986,846	(250,690)	2,477,278
Total capital assets not being depreciated	<u>7,493,902</u>	<u>1,986,846</u>	<u>(250,690)</u>	<u>9,230,058</u>
Capital assets being depreciated:				
Buildings and related improvements	33,675,005	191,993	(731,680)	33,135,318
Improvements other than buildings	49,867,040	58,226	-	49,925,266
Furniture, machinery, and equipment	48,740,478	3,619,914	(3,353,172)	49,007,220
Infrastructure	58,561,053	2,450,480	-	61,011,533
Total capital assets being depreciated	<u>190,843,576</u>	<u>6,320,613</u>	<u>(4,084,852)</u>	<u>193,079,337</u>
Less accumulated depreciation for:				
Buildings and related improvements	(28,946,678)	(1,010,050)	751,111	(29,205,617)
Improvements other than buildings	(39,027,598)	(1,615,087)	-	(40,642,685)
Furniture, machinery, and equipment	(38,248,470)	(2,884,799)	2,702,281	(38,430,988)
Infrastructure	(24,896,110)	(3,611,661)	-	(28,507,771)
Total accumulated depreciation	<u>(131,118,856)</u>	<u>(9,121,597)</u>	<u>3,453,392</u>	<u>(136,787,061)</u>
Total capital assets being depreciated, net	<u>59,724,720</u>	<u>(2,800,984)</u>	<u>(631,460)</u>	<u>56,292,276</u>
Governmental activities capital assets, net	<u>\$ 67,218,622</u>	<u>\$ (814,138)</u>	<u>\$ (882,150)</u>	<u>\$ 65,522,334</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

	January 1, 2019	Additions and Transfers In	Disposals and Transfers Out	December 31, 2019
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,124,842	\$ 19,788	\$ -	\$ 2,144,630
Construction in progress	1,004,078	1,510,212	(370,246)	2,144,044
Total capital assets not being depreciated	3,128,920	1,530,000	(370,246)	4,288,674
Capital assets being depreciated:				
Land improvements	1,100,349	1,076,134	-	2,176,483
Building and fixtures	14,039,724	122,708	-	14,162,432
Improvements other than buildings	243,717,478	3,109,036	(27,752)	246,798,762
Furniture, machinery, and equipment	5,173,254	546,675	(26,739)	5,693,190
Vehicles	5,465,786	392,677	(343,494)	5,514,969
Office equipment	148,556	-	-	148,556
Total capital assets being depreciated	269,645,147	5,247,230	(397,985)	274,494,392
Less accumulated depreciation for:				
Land improvements	(1,098,160)	(31,503)	-	(1,129,663)
Building and fixtures	(13,385,211)	(103,301)	-	(13,488,512)
Improvements other than buildings	(152,603,576)	(8,916,734)	-	(161,520,310)
Furniture, machinery, and equipment	(4,647,955)	(153,647)	19,549	(4,782,053)
Vehicles	(4,599,521)	(211,896)	93,939	(4,717,478)
Office equipment	(111,610)	(7,949)	-	(119,559)
Total accumulated depreciation	(176,446,033)	(9,425,030)	113,488	(185,757,575)
Total capital assets being depreciated, net	93,199,114	(4,177,800)	(284,497)	88,736,817
Business-type activities capital assets, net	\$ 96,328,034	\$ (2,647,800)	\$ (654,743)	\$ 93,025,491

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Depreciation expense was charged to governmental activities as follows:

Administrative	\$ 68,972
Community development	80,889
Parks and public property	1,776,061
Public works	4,905,345
Police	1,240,777
Fire	814,198
Library	235,355
	<u>\$ 9,121,597</u>

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

Water Fund	\$ 5,460,035
Sewer Fund	3,897,975
Municipal Golf Fund	67,020
	<u>\$ 9,425,030</u>

During the year ended December 31, 2019, the City approved the sale of 911 equipment and the transfer of 911 services to Northampton County. The total purchase price was \$1,367,000, of which \$341,750 was received from Northampton County in 2019 and the remaining \$1,025,250 (included in due from other governments in the governmental funds balance sheet and governmental activities statement of net position) will be received in equal installments of \$341,750 in 2020, 2021, and 2022.

The net book value of 911 equipment at the time of transfer approximated \$586,400. As a result, the net sale proceeds of \$780,581 is recognized in the statement of activities.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

	January 1, 2019	Additions	Disposals	December 31, 2019
Parking Authority:				
Capital assets, not being depreciated:				
Land	\$ 1,852,044	\$ 3,003,941	\$ -	\$ 4,855,985
Construction in progress	588,465	438,183	-	1,026,648
Total capital assets, not being depreciated	2,440,509	3,442,124	-	5,882,633
Capital assets, being depreciated:				
Parking garages	45,009,023	-	-	45,009,023
Furniture and fixtures	1,928,582	310,620	-	2,239,202
Automobiles	615,382	-	-	615,382
Leasehold and parking lot improvements	31,200	72,680	-	103,880
Total capital assets, being depreciated	47,584,187	383,300	-	47,967,487
Less accumulated depreciation	(18,035,516)	(1,621,804)	-	(19,657,320)
Total capital assets, being depreciated, net	29,548,671	(1,238,504)	-	28,310,167
Total capital assets, net	\$ 31,989,180	\$ 2,203,620	\$ -	\$ 34,192,800

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

	January 1, 2019	Additions	Disposals	December 31, 2019
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	864,558	-	-	864,558
Total capital assets, being depreciated	1,176,235	-	-	1,176,235
Less accumulated depreciation	(931,570)	(63,329)	-	(994,899)
Total capital assets, being depreciated, net	244,665	(63,329)	-	181,336
Total capital assets, net	\$ 249,665	\$ (63,329)	\$ -	\$ 186,336

	July 1, 2018	Additions	Disposals	June 30, 2019
Redevelopment Authority:				
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 for:				
Buildings	(2,410,398)	(645,125)	-	(3,055,523)
Total accumulated depreciation	(2,410,398)	(645,125)	-	(3,055,523)
Total capital assets, net	\$ 28,856,757	\$ (645,125)	\$ -	\$ 28,211,632

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

5. Interfund Receivable and Payables Balances

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2019 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental funds:		
General Fund	\$ 1,149,986	\$ 89,518
Non-Utility Capital Improvements Fund	112,928	65,570
Other Non-Major Governmental Funds	-	272,096
Proprietary funds:		
Water Fund	-	20,570
Sewer Fund	75,570	-
Other Non-Major Enterprise Fund	10,570	903,662
Internal Service Fund	3,028	666
Total	<u>\$ 1,352,082</u>	<u>\$ 1,352,082</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

6. Interfund Transfers

Interfund transfers for the year ended December 31, 2019 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ 1,910,172	\$ 12,492,311
Non-Utility Capital Improvements Fund	5,155,000	57,757
Debt Service Fund	9,994,911	-
Other Non-Major Governmental Funds	750,000	2,155,418
Proprietary funds:		
Water Fund	-	660,112
Sewer Fund	-	2,396,326
Other Non-Major Enterprise Fund	-	48,159
Total	<u>\$ 17,810,083</u>	<u>\$ 17,810,083</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, 2019

7. Long-Term Obligations

Bonds and Notes Payable

A summary of long-term bonds and notes payable of the City at December 31, 2019 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	\$ 109,027,000	\$ 82,940,520	\$ 27,349,785	\$ 130,734	\$ 110,421,039
Issuance of debt	64,575,000	-	4,715,000	1,654,266	6,369,266
Accretion of capital appreciation bonds	-	2,062,909	-	-	2,062,909
Repayment of debt	(59,653,000)	(6,509,000)	(6,249,496)	(65,000)	(12,823,496)
	113,949,000	78,494,429	25,815,289	1,720,000	106,029,718
Plus unamortized bond premium	1,459,418	2,982,968	121,366	-	3,104,334
Less unamortized bond discount	(178,478)	-	-	-	-
Outstanding at end of year	<u>\$ 115,229,940</u>	<u>\$ 81,477,397</u>	<u>\$ 25,936,655</u>	<u>\$ 1,720,000</u>	<u>\$ 109,134,052</u>

	Discretely Presented Component Units	
	Parking Authority	Redevelopment Authority
Outstanding at beginning of year	\$ 23,783,625	\$ 19,955,000
Issuance of debt	5,934,585	-
Repayment of debt	(3,363,625)	(4,910,000)
	26,354,585	15,045,000
Plus unamortized bond premium	30,434	-
Less unamortized bond discount	(243,635)	-
Outstanding at end of year	<u>\$ 26,141,384</u>	<u>\$ 15,045,000</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Year	Governmental Activities			Water Fund		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 4,477,000	\$ 3,191,867	\$ 7,668,867	\$ 6,686,472	\$ 1,833,092	\$ 8,519,564
2021	7,466,000	3,280,811	10,746,811	6,883,723	1,635,040	8,518,763
2022	8,216,000	3,035,469	11,251,469	6,291,508	2,229,927	8,521,435
2023	8,110,000	2,773,212	10,883,212	5,970,929	2,548,571	8,519,500
2024	8,380,000	2,505,318	10,885,318	5,662,952	2,859,148	8,522,100
2025-2029	43,500,000	8,560,968	52,060,968	27,693,845	14,912,581	42,606,426
2030-2034	33,800,000	2,734,997	36,534,997	19,305,000	1,620,750	20,925,750
Totals	\$ 113,949,000	\$ 26,082,642	\$ 140,031,642	\$ 78,494,429	\$ 27,639,109	\$ 106,133,538

Year	Sewer Fund			Golf Fund		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 1,360,700	\$ 576,619	\$ 1,937,319	\$ 65,000	\$ 60,200	\$ 125,200
2021	1,431,376	589,426	2,020,802	70,000	57,925	127,925
2022	1,460,217	583,718	2,043,935	70,000	55,475	125,475
2023	1,501,720	540,215	2,041,935	70,000	53,025	123,025
2024	1,548,770	495,365	2,044,135	75,000	50,575	125,575
2025-2029	8,364,785	1,853,117	10,217,902	420,000	211,225	631,225
2030-2034	8,135,162	783,076	8,918,238	490,000	133,175	623,175
2035-2039	2,012,559	90,494	2,103,053	460,000	40,775	500,775
Totals	\$ 25,815,289	\$ 5,512,030	\$ 31,327,319	\$ 1,720,000	\$ 662,375	\$ 2,382,375

Year	Parking Authority			Fiscal Year	Redevelopment Authority		
	Principal	Interest	Total		Principal	Interest *	Total
2020	\$ 1,223,550	\$ 754,938	\$ 1,978,488	2020	\$ 15,045,000	\$ 580,009	\$ 15,625,009
2021	1,060,936	758,526	1,819,462				
2022	1,104,794	732,810	1,837,604				
2023	1,134,236	703,665	1,837,901				
2024	1,169,003	672,924	1,841,927				
2025-2029	6,353,436	2,857,877	9,211,313				
2030-2034	3,591,603	2,037,268	5,628,871				
2035-2039	3,584,771	1,502,890	5,087,661				
2040-2044	4,332,326	884,044	5,216,370				
2048-2049	2,494,582	230,138	2,724,720				
2050-2054	305,348	11,923	317,271				
Totals	\$ 26,354,585	\$ 11,147,003	\$ 37,501,588		\$ 15,045,000	\$ 580,009	\$ 15,625,009

* - 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

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YEAR ENDED DECEMBER 31, 2019

Total principal and interest for the primary government due through maturity is \$279,874,874.

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 \$16,675,000, respectively.

During the year ended December 31, 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; and 3) to pay the costs and expenses related to the issuance of the bonds.

During the year ended December 31, 2019, the City issued General Obligation Bonds, Series A of 2019 (Series A of 2019 Bonds), in the amount of \$55,090,000. The proceeds of the Series A of 2019 Bonds were 1) to advance refund the City's Series B of 2011 Notes; 2) to advance refund a portion of the City's Series B of 2014 Bonds; 3) to 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 advance refunding and prepayment decreased the City's total debt service by \$2,296,438 through the year 2034 and resulted in an economic gain (difference

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

between present values of the old and new debt service payments) in the amount of \$2,353,827.

During the year ended December 31, 2019, the City issued General Obligation Bonds, Series AA of 2019 (Series AA of 2019 Bonds), in the amount of \$9,045,000. The proceeds of the Series AA of 2019 Bonds were 1) to currently refund the City's Series of 2012 Bonds; 2) to currently refund the City's Series A of 2013 Bonds; and 3) to pay the costs and expenses related to the issuance of the bonds. The current refunding decreased the City's total debt service by \$515,832 through the year 2033 and resulted in an economic gain (difference between present values of the old and new debt service payments) in the amount of \$503,590.

During the year ended December 31, 2019, the City funded the outstanding balances of the City's Series B of 2011 Notes, Series B of 2014 Bonds, and Series C of 2014 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 B of 2011 Notes, Series B of 2014 Bonds, and Series C of 2014 Bonds at December 31, 2019 was \$6,765,000, \$20,200,000, and \$22,495,000, 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, 2019 of \$64,624,585. The City was not required to make any payments in accordance with the guarantee agreements during the year ended December 31, 2019.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Long-term obligations payable at December 31, 2019 are as follows:

Governmental Activities:	Current Portion	Balance at December 31, 2019
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	\$ 20,000
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, 2019 is 0.71%.	337,000	1,039,000
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%.	825,000	825,000
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%.	660,000	5,205,000
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%.	265,000	1,340,000
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	5,120,000
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%.	340,000	1,760,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Governmental Activities:	Current Portion	Balance at December 31, 2019
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	10,285,000
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	5,395,000
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%.	165,000	165,000
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%.	955,000	18,220,000
General Obligation Bonds, Series of 2019, due in annual installments of \$80,000 to \$430,000 through December 2034; interest rates vary from 2.00% to 3.00%.	80,000	5,155,000
General Obligation Bonds, Series A of 2019, due in annual installments of \$465,000 to \$5,230,000 through December 2034; interest rates vary from 1.89% to 3.04%.	465,000	55,090,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Governmental Activities:	Current Portion	Balance at December 31, 2019
General Obligation Bonds, Series AA of 2019, due in annual installments of \$15,000 to \$380,000 through December 2033; interest rates vary from 2.37% to 4.00%.	15,000	4,330,000
Total Governmental Activities	<u>\$ 4,477,000</u>	<u>\$ 113,949,000</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, 2019

Business-Type Activities: Water Fund:	<u>Current Portion</u>	<u>Balance at December 31, 2019</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%.	\$ 1,320,472	\$ 39,272,429
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, 2019 is 0.71%.	66,000	202,000
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>5,300,000</u>	<u>39,020,000</u>
Total Water Fund	<u>6,686,472</u>	<u>78,494,429</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%.	125,000	125,000
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.	398,177	7,031,529

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Business-Type Activities:	Current	Balance at
Sewer Fund:	<u>Portion</u>	<u>December 31, 2019</u>
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.	502,523	9,018,760
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%.	205,000	4,925,000
General Obligation Bonds, Series AA of 2019, due in annual installments of \$130,000 to \$430,000 through December 2032; interest rates vary from 2.37% to 4.00%.	<u>130,000</u>	<u>4,715,000</u>
Total Sewer Fund	<u>1,360,700</u>	<u>25,815,289</u>
Golf Fund:		
General Obligation Bonds, Series C of 2018, due in annual installments through November 2038; including interest at 3.5%.	<u>65,000</u>	<u>1,720,000</u>
Total Business-Type Activities	<u>\$ 8,112,172</u>	<u>\$ 106,029,718</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Component Units:	Balance at
Parking Authority:	<u>December 31, 2019</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.	\$ 260,000
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.	6,755,000
Guaranteed Parking System Revenue Bonds, Series A of 2016, due in annual installments of \$5,000 to \$440,000, maturing in October 2025. Interest rates range from 1.442% to 3.025%. Secured by future revenues of the Parking Authority.	2,265,000
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
\$4,380,000 Guaranteed Parking System Taxable Revenue Bonds, Series A of 2019, authorized and \$1,041,053 issued. Due in semiannual installments, maturing in October 2038 with interest rate of 4.850%. Secured by future revenues of the Parking Authority.	1,041,053
\$14,120,000 Guaranteed Parking System Revenue Bonds, Series B of 2019, authorized and \$2,143,532 issued. Due in semiannual installments, maturing in April 2051 with interest rate of 3.880%. Secured by future revenues of the Parking Authority.	2,143,532
\$2,550,000 Promissory Note, Series 2019, authorized and \$750,000 issued, maturing December 1, 2029 and interest rates ranging from 3.400% to 4.00%. Note is secured by revenue, receipts, and money derived from or in connection with the parking system of the Parking Authority.	750,000
Total Parking Authority	<u>\$ 26,354,585</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Redevelopment Authority:	Current Portion	Balance at June 30, 2019
	<u> </u>	<u> </u>
TIF Bonds, Series of 2010, due in annual installments of \$2,235,000 to \$2,605,000 through December 2019, with a final payment of \$5,690,000 due in June 2020; interest rates are variable with a 6.0% cap but not less than 2.8%.	\$ 8,295,000	\$ 8,295,000
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%.	4,205,000	4,205,000
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%.	1,365,000	1,365,000
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%.	1,180,000	1,180,000
Total Redevelopment Authority	<u>\$ 15,045,000</u>	<u>\$ 15,045,000</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Other Changes in Long-Term Debt

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

	Balance January 1, 2019	Additions	Reductions	Balance December 31, 2019
Governmental activities:				
Accrued vacation and other compensated absences	\$ 4,353,196	\$ 10,325	\$ -	\$ 4,363,521
Capital leases	5,792,045	267,934	(1,754,722)	4,305,257
	<u>\$ 10,145,241</u>	<u>\$ 278,259</u>	<u>\$ (1,754,722)</u>	<u>\$ 8,668,778</u>
Business-type activities:				
Accrued vacation and other compensated absences	\$ 658,995	\$ 19,484	\$ -	\$ 678,479
Capital leases	173,915	69,880	(140,033)	103,762
	<u>\$ 832,910</u>	<u>\$ 89,364</u>	<u>\$ (140,033)</u>	<u>\$ 782,241</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, 2019, the net book value of the equipment and vehicles held under capital leases and included in capital assets was \$4,093,639 for governmental activities and \$120,160 for business-type activities.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

As of December 31, 2019, future minimum payments were as follows:

Year	Governmental Activities	Business-Type Activities
2020	\$ 992,970	\$ 83,863
2021	1,417,880	23,905
2022	759,488	-
2023	785,044	-
2024	268,237	-
2025-2026	488,524	-
Total commitment under capital leases	4,712,143	107,768
Less amount representing interest	406,886	4,006
Present value of future minimum lease payments	4,305,257	103,762
Less current portion	872,707	80,665
Long-term portion	\$ 3,432,550	\$ 23,097

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019

The combining information as of the year ended December 31, 2019 for the plans is as follows:

	Police Pension Fund	Firemen Pension Fund	Employee Benefit Trust Fund Total
Assets			
Interest and dividends receivable	\$ 156,504	\$ 148,702	\$ 305,206
Investments	<u>97,209,660</u>	<u>70,954,412</u>	<u>168,164,072</u>
Total Assets	<u>\$ 97,366,164</u>	<u>\$ 71,103,114</u>	<u>\$ 168,469,278</u>
Net Position			
Restricted for employees' retirement benefits	<u>\$ 97,366,164</u>	<u>\$ 71,103,114</u>	<u>\$ 168,469,278</u>
Total Net Position	<u>\$ 97,366,164</u>	<u>\$ 71,103,114</u>	<u>\$ 168,469,278</u>
Additions:			
Employee contributions	\$ 849,972	\$ 727,233	\$ 1,577,205
Employer contributions	5,316,066	3,384,368	8,700,434
Investment income	1,395,833	1,014,303	2,410,136
Realized and unrealized gains (losses), net	13,565,990	9,897,653	23,463,643
Investment expense	<u>(380,864)</u>	<u>(309,096)</u>	<u>(689,960)</u>
Total additions	<u>20,746,997</u>	<u>14,714,461</u>	<u>35,461,458</u>
Deductions:			
Benefits paid	<u>7,767,535</u>	<u>4,702,435</u>	<u>12,469,970</u>
Total deductions	<u>7,767,535</u>	<u>4,702,435</u>	<u>12,469,970</u>
Change in Net Position	12,979,462	10,012,026	22,991,488
Net Position:			
Beginning of year	<u>84,386,702</u>	<u>61,091,088</u>	<u>145,477,790</u>
End of year	<u>\$ 97,366,164</u>	<u>\$ 71,103,114</u>	<u>\$ 168,469,278</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Plan Memberships

Membership related to the Police and Firemen Plans at December 31, 2019 and membership related to the PMRS Plan at December 31, 2018 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
Covered Employees			
Inactive plan members or beneficiaries currently receiving benefits	185	118	343
Inactive plan members entitled to but not yet receiving benefits	-	-	7
Active plan members	149	105	320
Total	334	223	670

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

YEAR ENDED DECEMBER 31, 2019

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

YEAR ENDED DECEMBER 31, 2019

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019, there were zero participants in the DROP. As of December 31, 2019, 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

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2019

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, 2019. 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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YEAR ENDED DECEMBER 31, 2019

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, 2019, the City made its annual required contribution of \$5,316,066 and \$3,384,368 for the City's Police and Firemen Plans, respectively. 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. During the year ended December 31, 2019, the City contributed its annual required contribution of \$1,837,873 for the City's PMRS plan. The 2019 contribution is reported as deferred outflows of resources at December 31, 2019.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Changes in Net Pension Liability - Police

The changes in the net pension liability for the City for the year ended December 31, 2019 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2018	\$ 120,938,698	\$ 84,386,702	\$ 36,551,996
Changes for the year:			
Service cost	1,975,046	-	1,975,046
Interest	9,144,897	-	9,144,897
Changes for experience	213,001	-	213,001
Changes for assumptions	2,688,981	-	2,688,981
Contributions - employer	-	5,316,066	(5,316,066)
Contributions - employees	-	849,972	(849,972)
Net investment income	-	14,580,959	(14,580,959)
Benefit payments, including refunds	(7,767,535)	(7,767,535)	-
Net changes	6,254,390	12,979,462	(6,725,072)
Balances at December 31, 2019	\$ 127,193,088	\$ 97,366,164	\$ 29,826,924
Plan fiduciary net position as a percentage of the total pension liability			76.5%

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Changes in Net Pension Liability - Firemen

The changes in the net pension liability for the City for the year ended December 31, 2019 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2018	\$ 82,540,525	\$ 61,091,088	\$ 21,449,437
Changes for the year:			
Service cost	1,365,933	-	1,365,933
Interest	5,906,366	-	5,906,366
Changes for experience	(4,797,370)	-	(4,797,370)
Changes of assumptions	1,993,678	-	1,993,678
Contributions - employer	-	3,384,368	(3,384,368)
Contributions - employees	-	727,233	(727,233)
Net investment income	-	10,602,860	(10,602,860)
Benefit payments, including refunds	(4,702,435)	(4,702,435)	-
Net changes	(233,828)	10,012,026	(10,245,854)
Balances at December 31, 2019	\$ 82,306,697	\$ 71,103,114	\$ 11,203,583
Plan fiduciary net position as a percentage of the total pension liability			86.4%

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Changes in Net Pension Liability - PMRS

The changes in the net pension liability for the City for the year ended December 31, 2019 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2018 (based on the measurement date of December 31, 2017)	\$ 145,849,344	\$ 143,778,622	\$ 2,070,722
Changes for the year:			
Service cost	2,654,019	-	2,654,019
Interest	7,594,795	-	7,594,795
Change of benefits	989,720	-	989,720
Difference between expected and actual experience	577,841	-	577,841
Contributions - employer	-	2,311,003	(2,311,003)
Contributions - employees	-	1,648,602	(1,648,602)
Net investment loss	-	(6,213,738)	6,213,738
Transfers	98,153	98,153	-
Benefit payments, including refunds	(7,878,883)	(7,878,883)	-
Administrative expense	-	(323,867)	323,867
Net changes	4,035,645	(10,358,730)	14,394,375
Balances at December 31, 2019 (based on the measurement date of December 31, 2018)	\$ 149,884,989	\$ 133,419,892	\$ 16,465,097
Plan fiduciary net position as a percentage of the total pension liability			89.0%

The net pension liability of the PMRS plan is allocated between governmental activities and business-type activities in the amounts of \$11,196,265 and \$5,268,832, respectively, at December 31, 2019.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Actuarial Assumptions – Police and Firemen

The net pension liability was measured as of December 31, 2019 and was determined by rolling forward liabilities from the January 1, 2019 actuarial valuation. The January 1, 2019 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) PubS-2010 mortality table. No significant events or changes occurred between the valuation date and the fiscal year-ends.

Change in actuarial assumptions – Police and Firemen

In the January 1, 2019 Police and Firemen Plans actuarial valuations, the mortality tables were updated from the IRS 2017 Static Combined Table for Small Plans to the PubS-2010 mortality table.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Actuarial Assumptions – PMRS

The total pension liability was determined by an actuarial valuation performed on January 1, 2019 with liabilities rolled forward to December 31, 2018, 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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

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

Long-Term Expected Rate of Return – Police 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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019 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 7.0%. 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, 2019, the annual money-weighted rate of return on Police and Firemen Plan investments, net of investment expense, was 17.9%.

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, 2019, the City does not hold more than five percent of each individual Plans' investments in any one issuer.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019 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, 2018 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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Police	\$ 45,972,920	\$ 29,826,924	\$ 16,470,080
Firemen	\$ 21,249,778	\$ 11,203,583	\$ 2,831,130
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
PMRS	\$ 33,544,307	\$ 16,465,097	\$ 1,962,932

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

For the year ended December 31, 2019, the City recognized pension expense of \$12,811,756 in the governmental activities and \$1,380,031 in the business-type activities.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

At December 31, 2019, the City reported deferred outflows of resources related to pensions from the following sources:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<u>Deferred Outflows of Resources:</u>		
Net difference between projected and actual earnings on pension plan investments	\$ 1,034,802	\$ 486,966
Differences between expected and actual experience	7,001,451	286,638
Changes in assumptions	7,333,397	457,899
City contributions subsequent to the measurement date	<u>1,247,513</u>	<u>590,360</u>
Total deferred outflows of resources	<u>\$ 16,617,163</u>	<u>\$ 1,821,863</u>
<u>Deferred Inflows of Resources:</u>		
Net difference between projected and actual earnings on pension plan investments	\$ 4,172,076	\$ -
Differences between expected and actual experience	<u>4,112,031</u>	<u>-</u>
Total deferred inflows of resources	<u>\$ 8,284,107</u>	<u>\$ -</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

The differences in the City's expected and actual experience and changes in assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. City contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending December 31, 2020. 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>
2020	\$ 2,317,468	\$ 785,269
2021	414,159	(355,382)
2022	2,745,019	(122,204)
2023	640,234	923,820
2024	643,694	-
Thereafter	324,969	-
	<u>\$ 7,085,543</u>	<u>\$ 1,231,503</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, 2019, the Library paid \$165,444 to PMRS on behalf of the City for the seventh of the ten payments. Alternatively, the Library offers a 457(b) plan to all remaining and new employees.

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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, 2019, the Parking Authority paid \$188,592 to PMRS on behalf of the City for the seventh 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

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YEAR ENDED DECEMBER 31, 2019

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 January 1, 2018:

Active employees	19
Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	<u>1</u>
Total	<u><u>34</u></u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Redevelopment Authority

Membership of the Redevelopment Authority's pension plan consisted of the following at the most recent actuarial valuation date of January 1, 2019:

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, 2018, the Parking Authority made a contribution of \$68,231. The MMO for the year ended December 31, 2018 was \$68,231. During the year ended December 31, 2019, the Parking Authority made a contribution of \$114,185. The MMO for the year ended December 31, 2019 was \$114,185. The 2019 contribution is reported as a deferred outflow of resources at December 31, 2019.

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, 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. The MMO for the year ended December 31, 2019 was \$34,097. During the year ended June 30, 2019, the Redevelopment Authority made a contribution to the Redevelopment Authority pension plan in the amount of \$24,652.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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, 2019 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2018 (based on the measurement date of December 31, 2017)	\$ 3,338,745	\$ 3,119,822	\$ 218,923
Changes for the year:			
Service cost	148,920	-	148,920
Interest	178,494	-	178,494
Difference between expected and actual experience	151,186	-	151,186
Contributions - employer	-	68,231	(68,231)
Contributions - employees	-	76,989	(76,989)
PMRS investment income	-	156,148	(156,148)
Market value investment income	-	(268,254)	268,254
Benefit payments, including refunds	(177,825)	(177,825)	-
Administrative expense	-	(7,628)	7,628
Net changes	300,775	(152,339)	453,114
Balances at December 31, 2019 (based on the measurement date of December 31, 2018)	\$ 3,639,520	\$ 2,967,483	\$ 672,037

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation performed on January 1, 2018, with liabilities rolled forward to December 31, 2018, using the actuarial assumptions consistent with that presented for the City’s PMRS pension plan, applied to all periods in the measurement.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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:

1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
<u>\$ 1,130,286</u>	<u>\$ 672,037</u>	<u>\$ 289,281</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Redevelopment Authority

The changes in the net pension liability of the Redevelopment Authority for the year ended June 30, 2019 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2018 (based on the measurement date of December 31, 2017)	\$ 1,021,368	\$ 932,367	\$ 89,001
Changes for the year:			
Service cost	24,297	-	24,297
Interest	52,994	-	52,994
Difference between expected and actual experience	12,002	-	12,002
Contributions - employer	-	30,415	(30,415)
Contributions - employees	-	9,398	(9,398)
Net investment loss	-	(11,385)	11,385
Benefit payments, including refunds	(73,458)	(73,458)	-
Administrative expense	-	(2,121)	2,121
Net changes	15,835	(47,151)	62,986
Balances at June 30, 2019 (based on the measurement date of December 31, 2018)	\$ 1,037,203	\$ 885,216	\$ 151,987
Plan fiduciary net position as a percentage of the total pension liability			85.3%

Actuarial Assumptions – The total pension liability was based on the actuarial valuation performed on January 1, 2019 with liabilities rolled forward at December 31, 2018, 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.

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NOTES TO FINANCIAL STATEMENTS

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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%)
\$ 258,526	\$ 151,987	\$ 59,629

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

Parking Authority

For the year ended December 31, 2019, the Parking Authority recognized pension expense of \$272,642.

At December 31, 2019, 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	\$ 295,300	\$ -
Parking Authority contributions subsequent to the measurement date	114,185	-
Changes in assumptions	59,696	-
Net difference between projected and actual earnings on pension plan investments	-	184
Total	\$ 469,181	\$ 184

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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, 2020. 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>	
2020	\$ 123,912
2021	107,266
2022	19,590
2023	78,848
2024	<u>25,196</u>
	<u>\$ 354,812</u>

Redevelopment Authority

For the year ended June 30, 2019, the Redevelopment Authority recognized pension expense of \$37,378.

At June 30, 2019, 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	\$ 17,686	\$ -
Changes in assumptions	6,188	-
Redevelopment Authority contributions subsequent to the measurement date	17,049	-
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>25,820</u>
Total	<u>\$ 40,923</u>	<u>\$ 25,820</u>

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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, 2020. 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>	
2020	\$ 8,123
2021	(12,630)
2022	(8,774)
2023	<u>11,335</u>
	<u>\$ (1,946)</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.

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2019

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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YEAR ENDED DECEMBER 31, 2019

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

YEAR ENDED DECEMBER 31, 2019

Contributions

The City's contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2019, 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, 2019 were as follows:

Service cost	\$ 754,179
Interest	538,439
Changes in assumptions	(593,155)
Benefit payments	<u>(803,197)</u>
Net changes	(103,734)
OPEB Liability at December 31, 2018 (based on the measurement date of December 31, 2017)	<u>16,720,123</u>
OPEB Liability at December 31, 2019 (based on the measurement date of December 31, 2018)	<u>\$ 16,616,389</u>

The total OPEB liability is allocated between the governmental activities and business-type activities in the amounts of \$14,132,472 and \$2,483,917, respectively, at December 31, 2019.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and on the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

The total OPEB liability was determined by an actuarial valuation performed on January 1, 2018 and measured at December 31, 2019, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Interest rate of return	3.64%
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 3.16% in the January 1, 2018, measured as of December 31, 2018 actuarial valuation to 3.64% in the January 1, 2018 measured as of December 31, 2019 actuarial valuation.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.64%. 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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 (2.64%)	Current Discount Rate (3.64%)	1% Increase (4.64%)
Total OPEB Liability	<u>\$ 17,875,900</u>	<u>\$ 16,616,389</u>	<u>\$ 15,446,793</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>\$ 15,257,485</u>	<u>\$ 16,616,389</u>	<u>\$ 18,210,510</u>

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended December 31, 2019, the City recognized OPEB expense of \$567,981 in the governmental activities and (\$7,433) in business-type activities.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

At December 31, 2019, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Governmental Activities	Business-Type Activities
Deferred Outflows of Resources:		
Changes in assumptions	\$ 379,217	\$ 55,386
Differences between expected and actual experience	188,711	(13,364)
Payments subsequent to the measurement date	661,641	155,114
Total	\$ 1,229,569	\$ 197,136
	Governmental Activities	Business-Type Activities
Deferred Inflows of Resources:		
Changes in assumptions	\$ 414,362	\$ 60,162

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, 2020. 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
2020	\$ 85,718	\$ (1,033)
2021	85,718	(1,033)
2022	85,719	(1,033)
2023	(103,589)	(15,041)
	\$ 153,566	\$ (18,140)

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 \$250,839 to the plan during 2019. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

11. Commitment and Contingencies

Federal and State Grants

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

Litigation

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

Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages in 2019. 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 \$6.25 million at December 31, 2019. Subsequent to year-end, the City entered into construction contracts for approximately \$8.2 million.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Tax Incremental Financing Project

The City, along with the Redevelopment Authority, agreed to participate in a TIF Project to finance a portion of costs associated with various redevelopment of the Bethlehem Steel site. Some of the larger projects include the Steelstacks Plaza, Levitt Pavilion, Festival Center Plaza, Hoover-Mason Trestle, and various parking lots. The City has agreed to pay to the Redevelopment Authority specified portions of the incremental real estate tax revenues created by the Project for payment of the debt service on the TIF Bonds and loans. The outstanding principal amount of the TIF Bonds and loans is approximately \$15.045 million at June 30, 2019. During the year ended December 31, 2019, City tax revenues collected and remitted directly to the TIF were approximately \$1.42 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 was set to expire on June 1, 2020. The initial term can be extended for one additional 10-year term upon written agreement by both parties, which took place during 2020 and the new lease term is now through June 1, 2030. The lease is 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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 amount of \$347,000; however, settlement of the property to the developer did not occur until August 2018. As of June 30, 2019, there are no outstanding commitments regarding this transaction.

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 90% of the total taxes collected by the City in 2019. 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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

14. Negative Net Position

Municipal Golf Fund

The Municipal Golf Fund had a deficit net position of \$898,994 at December 31, 2019. This represents a reduction of \$294,217 from the December 31, 2018 deficit net position. 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. The City also renegotiated the lease with the restaurant at the golf course for 2019. Annual lease payments increased by approximately \$45,000 in 2019. The City believes these changes along with recent capital investment in the golf course will continue to reduce the deficit net position.

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. In June 2019, the Authority entered into a single bond issue with Moravian College for which it has limited liability. Although the Authority is a party to the trust indentures with the associated Trustees, the agreements are structured such that there is no recourse against the Authority in the case of default. As such, the corresponding debt is not reported in the Authority's balance sheet or statement of net position. At June 30, 2019, the total conduit debt balance outstanding is \$11,159,487.

16. Subsequent Events

In early 2020, an outbreak of a novel strain of coronavirus was identified and infections have been found in a number of countries around the world, including the United States. The coronavirus and its associated impacts on supply chains, travel, employee productivity and other economic activities has had, and may continue to have, a material effect on

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

financial markets and economic activity. The extent of the impact of the coronavirus on the City's operational and financial performance is currently uncertain and cannot be predicted.

In August 2020, the City issued General Obligation Bonds, Series of 2020 (Series of 2020 Bonds) in the amount of \$6,530,000. The proceeds of the Series of 2020 Bonds will be used for 1) refund the City's 2012 PennVest loan, and 2) pay the costs and expenses related to the issuance of the bonds. Payments are due through 2034 and interest rates range from 1.50% to 5.00%.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 43,081,315	\$ 43,081,315	\$ 44,012,306	\$ 930,991
Licenses and permits	3,022,800	3,022,800	3,365,012	342,212
Intergovernmental	7,570,558	8,645,721	8,036,935	(608,786)
Departmental earnings	7,259,500	7,259,500	7,629,196	369,696
Fines and forfeitures	370,000	370,000	445,880	75,880
Investment income	300,000	300,000	465,927	165,927
Municipal recreation	460,000	460,000	449,286	(10,714)
Host fees	9,825,000	9,825,000	9,779,202	(45,798)
Other operating revenues	1,085,500	1,085,500	1,137,904	52,404
Miscellaneous	1,683,000	1,683,000	1,430,154	(252,846)
Total revenues	<u>74,657,673</u>	<u>75,732,836</u>	<u>76,751,802</u>	<u>1,018,966</u>
Expenditures:				
Current:				
General government	1,065,082	1,090,082	1,042,802	47,280
Administration	1,841,165	1,859,865	1,807,388	52,477
Community development	6,157,800	7,106,521	6,421,940	684,581
Parks and public property	544,579	529,579	460,475	69,104
Public works	9,898,387	10,336,157	10,038,728	297,429
Police	14,519,788	15,421,463	15,362,688	58,775
Fire	10,989,004	11,473,303	11,447,465	25,838
General	23,329,592	21,761,485	21,250,518	510,967
Civic	214,969	216,969	130,500	86,469
Library	1,315,934	1,381,734	1,381,731	3
Debt service:				
Principal	3,460,000	3,455,000	3,455,000	-
Interest	3,031,930	2,811,230	2,811,229	1
Total expenditures	<u>76,368,230</u>	<u>77,443,388</u>	<u>75,610,464</u>	<u>1,832,924</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,710,557)</u>	<u>(1,710,552)</u>	<u>1,141,338</u>	<u>2,851,890</u>
Other Financing Sources (Uses):				
Transfers in	2,942,327	2,942,327	2,958,597	16,270
Transfers out	(1,231,770)	(3,731,775)	(6,110,252)	(2,378,477)
Total other financing sources (uses)	<u>1,710,557</u>	<u>(789,448)</u>	<u>(3,151,655)</u>	<u>(2,362,207)</u>
Net Change in Fund Balance	-	(2,500,000)	(2,010,317)	489,683
Fund Balance:				
Beginning of the year, budgetary basis	-	2,500,000	15,436,179	12,936,179
End of the year, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,425,862</u>	<u>\$ 13,425,862</u>

See accompanying notes to budgetary comparison schedule.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2019

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	\$ 79,710,399	\$ 81,720,716
Accrual adjustments:		
Receivables:		
Beginning of year	(9,440,482)	-
End of year	10,610,218	-
Due from/to:		
Beginning of year	7,300,185	4,126,987
End of year	(7,047,699)	(6,505,469)
Accrued liabilities:		
Beginning of year	-	(3,168,054)
End of year	-	2,818,227
Unearned and unavailable revenues:		
Beginning of year	2,436,822	-
End of year	(3,408,728)	-
Agency transactions	8,555	-
Reclassifications	(652,020)	(652,020)
GAAP basis	<u>\$ 79,517,250</u>	<u>\$ 78,340,387</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

	2019*	2018	2017	2016	2015	2014
Total Pension Liability:						
Service cost	\$ 1,975,046	\$ 2,209,414	\$ 2,114,272	\$ 2,132,733	\$ 2,040,893	\$ 2,051,464
Interest	9,144,897	8,689,540	8,420,015	7,764,382	7,503,420	6,976,913
Differences between expected and actual experience	213,001	-	3,269,690	-	4,010,737	-
Changes in assumptions	2,688,981	-	2,182,081	-	-	-
Benefit payments, including refunds	(7,767,535)	(7,222,763)	(6,848,745)	(6,328,562)	(5,984,760)	(6,032,142)
Net Changes in Total Pension Liability	6,254,390	3,676,191	9,137,313	3,568,553	7,570,290	2,996,235
Total Pension Liability - Beginning	120,938,698	117,262,507	108,125,194	104,556,641	96,986,351	93,990,116
Total Pension Liability - Ending (a)	\$ 127,193,088	\$ 120,938,698	\$ 117,262,507	\$ 108,125,194	\$ 104,556,641	\$ 96,986,351
Plan Fiduciary Net Position:						
Contributions - employer	\$ 5,316,066	\$ 4,515,210	\$ 4,463,427	\$ 4,430,587	\$ 4,298,925	\$ 3,520,610
Contributions - employee	849,972	775,370	812,201	846,396	823,385	817,800
Net investment income (loss)	14,580,959	(4,267,003)	11,522,639	6,264,754	414,168	3,608,964
Benefit payments, including refunds	(7,767,535)	(7,222,763)	(6,848,745)	(6,328,562)	(5,984,760)	(6,032,142)
Administrative expense	-	(21,952)	(18,241)	(32,879)	(18,920)	(7,400)
Net Change in Plan Fiduciary Net Position	12,979,462	(6,221,138)	9,931,281	5,180,296	(467,202)	1,907,832
Plan Fiduciary Net Position - Beginning	84,386,702	90,607,840	80,676,559	75,496,263	75,963,465	74,055,633
Plan Fiduciary Net Position - Ending (b)	\$ 97,366,164	\$ 84,386,702	\$ 90,607,840	\$ 80,676,559	\$ 75,496,263	\$ 75,963,465
Net Pension Liability - Ending (a-b)	\$ 29,826,924	\$ 36,551,996	\$ 26,654,667	\$ 27,448,635	\$ 29,060,378	\$ 21,022,886
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.55%	69.78%	77.27%	74.61%	72.21%	78.32%
Covered Payroll	\$ 12,894,055	\$ 11,814,880	\$ 11,580,766	\$ 12,453,621	\$ 11,756,420	\$ 11,524,100
Net Pension Liability as a Percentage of Covered Payroll	231.32%	309.37%	230.16%	220.41%	247.19%	182.43%

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

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - POLICE PENSION PLAN

	2019*	2018	2017	2016	2015	2014	2013	2012	2011	2010
Schedule of City Contributions										
Actuarially determined contribution	\$ 5,316,066	\$ 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
Contributions in relation to the actuarially determined contributions	5,316,066	4,515,210	4,463,427	4,430,587	4,298,925	3,520,610	3,494,690	2,520,217	2,614,322	2,091,038
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ (79,838)	\$ (169,929)
Covered payroll	\$ 12,894,055	\$ 11,814,880	\$ 11,580,766	\$ 12,453,621	\$ 11,756,420	\$ 11,524,100				
Contributions as a percentage of covered payroll	41.23%	38.22%	38.54%	35.58%	36.57%	30.55%				
Investment Returns										
Annual money-weighted rate of return, net of investment expense	17.90%	-4.35%	14.27%	8.75%	0.84%					

Methods and assumptions used to determine contribution rate for the year ended December 31, 2018:

Actuarial valuation date:	January 1, 2017
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar closed
Remaining amortization period:	14 years
Asset valuation method:	Market value of assets as determined by the trustee
Inflation:	3.00%
Salary increases:	4.50%
Investment rate of return:	7.50%
Retirement age:	Attainment of age 57 and completion of 20 years of service
Mortality	IRS 2017 Static Combined Table for Small Plans
Change in benefit terms:	Effective July 1, 2015, members hired on or after January 1, 2012, contribute 5% of compensation, plus \$1 per month

Changes in actuarial assumptions:

The January 1, 2017 mortality was updated from RP2000 Table to IRS 2017 Static Combined Table for Small Plans

* 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

	2019*	2018	2017	2016	2015	2014
Total Pension Liability:						
Service cost	\$ 1,365,933	\$ 1,534,859	\$ 1,468,765	\$ 1,355,990	\$ 1,297,598	\$ 1,290,085
Interest	5,906,366	5,926,728	5,733,824	5,213,255	5,067,577	4,837,270
Differences between expected and actual experience	(4,797,370)	-	3,339,533	-	1,257,475	-
Changes in assumptions	1,993,678	-	1,635,967	-	-	-
Benefit payments, including refunds	(4,702,435)	(4,864,612)	(5,015,911)	(4,335,057)	(4,563,169)	(4,629,623)
Net Changes in Total Pension Liability	(233,828)	2,596,975	7,162,178	2,234,188	3,059,481	1,497,732
Total Pension Liability - Beginning	82,540,525	79,943,550	72,781,372	70,547,184	67,487,703	65,989,971
Total Pension Liability - Ending (a)	\$ 82,306,697	\$ 82,540,525	\$ 79,943,550	\$ 72,781,372	\$ 70,547,184	\$ 67,487,703
Plan Fiduciary Net Position:						
Contributions - employer	\$ 3,384,368	\$ 2,668,509	\$ 2,595,844	\$ 2,550,742	\$ 2,683,110	\$ 2,223,040
Contributions - employee	727,233	620,702	617,367	644,461	570,801	572,480
Net investment income (loss)	10,602,860	(3,092,763)	8,420,260	4,634,719	269,203	2,701,705
Benefit payments, including refunds	(4,702,435)	(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	10,012,026	(4,690,129)	6,603,666	3,471,874	(1,054,505)	860,702
Plan Fiduciary Net Position - Beginning	61,091,088	65,781,217	59,177,551	55,705,677	56,760,182	55,899,480
Plan Fiduciary Net Position - Ending (b)	\$ 71,103,114	\$ 61,091,088	\$ 65,781,217	\$ 59,177,551	\$ 55,705,677	\$ 56,760,182
Net Pension Liability - Ending (a-b)	\$ 11,203,583	\$ 21,449,437	\$ 14,162,333	\$ 13,603,821	\$ 14,841,507	\$ 10,727,521
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.39%	74.01%	82.28%	81.31%	78.96%	84.10%
Covered Payroll	\$ 8,398,361	\$ 7,711,777	\$ 7,639,322	\$ 8,021,606	\$ 6,860,596	\$ 7,065,479
Net Pension Liability as a Percentage of Covered Payroll	133.40%	278.14%	185.39%	169.59%	216.33%	151.83%

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

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - FIREMEN PENSION PLAN

	2019*	2018	2017	2016	2015	2014	2013	2012	2011	2010
Schedule of City Contributions										
Actuarially determined contribution	\$ 3,384,368	\$ 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
Contributions in relation to the actuarially determined contributions	3,384,368	2,668,509	2,595,844	2,550,742	2,683,110	2,223,040	2,245,105	1,492,989	1,701,818	1,227,791
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ (28,975)	\$ (91,011)
Covered payroll	\$ 8,398,361	\$ 7,711,777	\$ 7,639,322	\$ 8,021,606	\$ 6,860,596	\$ 7,065,479				
Contributions as a percentage of covered payroll	40.30%	34.60%	33.98%	31.80%	39.11%	31.46%				
Investment Returns										
Annual money-weighted rate of return, net of investment expense	17.90%	-4.35%	14.27%	8.75%	0.84%	5.73%				

Methods and assumptions used to determine contribution rate for the year ended December 31, 2018:

Actuarial valuation date:	January 1, 2017
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar closed
Remaining amortization period:	12 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	IRS 2017 Static Combined Table for Small Plans

Change in benefit terms: None since January 1, 2017

Changes in actuarial assumptions:

The January 1, 2017 mortality was updated from RP2000 Table to IRS 2017 Static Combined Table for Small Plans

* 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

	2019*	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	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	N/A

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

CITY OF BETHLEHEM, PENNSYLVANIA

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

	2019*	2018	2017	2016	2015	2014	2013	2012	2011	2010
Schedule of City Contributions										
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ 698,515	\$ 1,040,430	\$ 1,051,497	\$ 432,314	\$ 455,998	\$ 467,762
Contributions in relation to the actuarially determined contributions	-	-	-	-	698,515	1,040,430	1,051,497	432,315	458,902	487,529
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ (2,904)	\$ (19,767)
Covered payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	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

	2019*	2018	2017	2016	2015
Total Pension Liability:					
Service cost	\$ 2,654,019	\$ 2,563,555	\$ 2,561,288	\$ 2,610,686	\$ 2,788,823
Interest	7,594,795	7,483,384	7,409,285	7,143,983	6,983,880
Transfers	98,153	72,665	1,242	8,868	408,927
Changes of benefits	989,720	-	-	-	-
Changes in assumptions	-	-	3,737,933	2,482,253	-
Benefit payments, including refunds	(7,878,883)	(8,316,599)	(7,233,675)	(7,502,216)	(7,143,060)
Differences between expected and actual experience	577,841	-	1,849,458	-	425,849
Net Changes in Total Pension Liability	4,035,645	1,803,005	8,325,531	4,743,574	3,464,419
Total Pension Liability - Beginning	145,849,344	144,046,339	135,720,808	130,977,234	127,512,815
Total Pension Liability - Ending (a)	\$ 149,884,989	\$ 145,849,344	\$ 144,046,339	\$ 135,720,808	\$ 130,977,234
Plan Fiduciary Net Position:					
Contributions - employer	\$ 2,311,003	\$ 1,181,609	\$ 1,177,999	\$ 1,118,126	\$ 28,582,658
Contributions - employee	1,648,602	1,621,913	1,657,679	1,539,086	1,625,488
Net investment income	(6,213,738)	22,018,223	10,428,786	8,161	4,481,780
Transfers	98,153	72,665	1,242	8,868	408,927
Benefit payments, including refunds	(7,878,883)	(8,316,599)	(7,233,675)	(7,502,216)	(7,143,060)
Administrative expense	(323,867)	(327,935)	(365,238)	(301,278)	(229,161)
Net Change in Plan Fiduciary Net Position	(10,358,730)	16,249,876	5,666,793	(5,129,253)	27,726,632
Plan Fiduciary Net Position - Beginning	143,778,622	127,528,746	121,861,953	126,991,206	99,264,574
Plan Fiduciary Net Position - Ending (b)	\$ 133,419,892	\$ 143,778,622	\$ 127,528,746	\$ 121,861,953	\$ 126,991,206
Net Pension Liability - Ending (a-b)	\$ 16,465,097	\$ 2,070,722	\$ 16,517,593	\$ 13,858,855	\$ 3,986,028
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.01%	98.58%	88.53%	89.79%	96.96%
Covered Payroll	\$ 22,100,890	\$ 21,347,566	\$ 22,036,333	\$ 20,428,871	\$ 20,610,195
Net Pension Liability as a Percentage of Covered Payroll	74.50%	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

	2019*	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 1,195,583	\$ 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
Contributions in relation to the actuarially determined contributions	(a) 2,311,003	1,181,609	1,177,999	1,118,126	1,172,109	4,033,848	2,939,785	3,041,355	3,428,478	3,349,700
Contribution deficiency (excess)	\$ (1,115,420)	\$ (560)	\$ (400)	\$ (540)	\$ (350,500)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 22,100,890	\$ 21,347,566	\$ 22,036,333	\$ 20,428,871	\$ 20,610,195					
Contributions as a percentage of covered payroll	10.46%	5.54%	5.35%	5.47%	5.69%					

(a) 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.

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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

	2019*	2018	2017	2016	2015
Total Pension Liability:					
Service cost	\$ 148,920	\$ 140,452	\$ 135,799	\$ 142,903	\$ 158,054
Interest	178,494	169,771	143,736	135,565	131,874
Changes in assumptions	-	-	88,483	72,908	-
Benefit payments, including refunds	(177,825)	(127,881)	(88,057)	(300,495)	(84,529)
Differences between expected and actual experience	151,186	-	355,416	-	162,885
Net Changes in Total Pension Liability	300,775	182,342	635,377	50,881	368,284
Total Pension Liability - Beginning	3,338,745	3,156,403	2,521,026	2,470,145	2,101,861
Total Pension Liability - Ending (a)	\$ 3,639,520	\$ 3,338,745	\$ 3,156,403	\$ 2,521,026	\$ 2,470,145
Plan Fiduciary Net Position:					
Contributions - employer	\$ 68,231	\$ 67,090	\$ 64,855	\$ 59,568	\$ 64,369
Contributions - employee	76,989	72,673	71,208	74,413	68,403
Net investment income (loss)	(112,106)	441,283	209,374	181,173	(98,056)
Benefit payments, including refunds	(177,825)	(127,881)	(88,057)	(300,495)	(84,529)
Administrative expense	(7,628)	(7,268)	(7,550)	(5,984)	(5,978)
Net Change in Plan Fiduciary Net Position	(152,339)	445,897	249,830	8,675	(55,791)
Plan Fiduciary Net Position - Beginning	3,119,822	2,673,925	2,424,095	2,415,420	2,471,211
Plan Fiduciary Net Position - Ending (b)	\$ 2,967,483	\$ 3,119,822	\$ 2,673,925	\$ 2,424,095	\$ 2,415,420
Net Pension Liability - Ending (a-b)	\$ 672,037	\$ 218,923	\$ 482,478	\$ 96,931	\$ 54,725
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.54%	93.44%	84.71%	96.16%	97.78%
Covered Payroll	\$ 1,027,379	\$ 968,961	\$ 949,433	\$ 992,174	\$ 901,337
Net Pension Liability as a Percentage of Covered Payroll	65.41%	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

	2019	2018	2017	2016	2015	2014	2013 **
Actuarially determined contribution	\$ 68,231	\$ 66,979	\$ 64,835	\$ 59,488	\$ 64,309	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	68,231	67,090	64,855	59,568	64,369	-	-
Contribution deficiency (excess)	\$ -	\$ (111)	\$ (20)	\$ (80)	\$ (60)	\$ -	\$ -
Covered payroll	\$ 1,027,379	\$ 968,961	\$ 949,433	\$ 992,174	\$ 901,337		
Contributions as a percentage of covered payroll	6.64%	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

	2019*	2018	2017	2016	2015
Total Pension Liability:					
Service cost	\$ 24,297	\$ 23,589	\$ 23,110	\$ 22,509	\$ 21,777
Interest	52,994	52,803	51,724	50,385	49,383
Benefit payments, including refunds	(73,458)	(73,458)	(73,458)	(73,458)	(73,458)
Differences between expected and actual experience	12,002	-	38,737	-	19,796
Changes in assumptions	-	-	24,749	24,308	-
Net Changes in Total Pension Liability	15,835	2,934	64,862	23,744	17,498
Total Pension Liability - Beginning	1,021,368	1,018,434	953,572	929,828	912,330
Total Pension Liability - Ending (a)	\$ 1,037,203	\$ 1,021,368	\$ 1,018,434	\$ 953,572	\$ 929,828
Plan Fiduciary Net Position:					
Contributions - employer	\$ 30,415	\$ 30,522	\$ 27,449	\$ 27,007	\$ 18,097
Contributions - employee	9,398	9,125	9,191	8,592	8,304
Net investment income	(11,385)	145,234	84,414	19,218	50,638
Benefit payments, including refunds	(73,458)	(73,458)	(73,458)	(73,458)	(73,458)
Administrative expense	(2,121)	(2,155)	(2,311)	(1,918)	(1,746)
Net Change in Plan Fiduciary Net Position	(47,151)	109,268	45,285	(20,559)	1,835
Plan Fiduciary Net Position - Beginning	932,367	823,099	777,814	798,373	796,538
Plan Fiduciary Net Position - Ending (b)	\$ 885,216	\$ 932,367	\$ 823,099	\$ 777,814	\$ 798,373
Net Pension Liability - Ending (a-b)	\$ 151,987	\$ 89,001	\$ 195,335	\$ 175,758	\$ 131,455
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.35%	91.29%	80.82%	81.57%	85.86%
Covered Payroll	\$ 170,882	\$ 165,905	\$ 167,105	\$ 156,218	\$ 156,502
Net Pension Liability as a Percentage of Covered Payroll	88.94%	53.65%	116.89%	112.51%	84.00%

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CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF BETHLEHEM REDEVELOPMENT AUTHORITY CONTRIBUTIONS

	2019*	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 30,415	\$ 30,522	\$ 27,449	\$ 27,007	\$ 18,486	\$ 17,598	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	30,415	30,522	27,449	27,007	18,097	17,598	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ 389	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 170,882	\$ 165,905	\$ 167,105	\$ 156,218	\$ 156,502					
Contributions as a percentage of covered payroll	17.80%	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, 2019

	2019*	2018
Total OPEB Liability:		
Service cost	\$ 754,179	\$ 678,935
Interest	538,439	576,183
Differences between expected and actual experience	-	292,245
Changes in assumptions	(593,155)	724,337
Benefit payments, including refunds	(803,197)	(879,720)
Net Changes in Total OPEB Liability	(103,734)	1,391,980
Total OPEB Liability - Beginning	16,720,123	15,328,143
Total OPEB Liability - Ending	\$ 16,616,389	\$ 16,720,123

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CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB

YEAR ENDED DECEMBER 31, 2019

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	3.64%
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 3.16% in the January 1, 2018 actuarial valuation as of December 31, 2018 to 3.64% in the January 1, 2019 actuarial valuation as of December 31, 2019.

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, 2019

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
Assets				
Cash and cash equivalents	\$ 272,096	\$ 2,755,954	\$ 1,060,615	\$ 4,088,665
Receivables:				
Loans	-	1,247,132	-	1,247,132
Due from other governments	-	112,646	-	112,646
Total Assets	\$ 272,096	\$ 4,115,732	\$ 1,060,615	\$ 5,448,443
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and other accrued expenses	\$ -	\$ 150,647	\$ 64,172	\$ 214,819
Accrued payroll	-	3,931	-	3,931
Accrued vacation and other compensated absences	-	6,625	-	6,625
Due to other funds	272,096	-	-	272,096
Unearned revenues	-	3,954,529	-	3,954,529
Total Liabilities	272,096	4,115,732	64,172	4,452,000
Fund Balance:				
Restricted for:				
Public works	-	-	996,443	996,443
Police	-	-	-	-
Total Fund Balance	-	-	996,443	996,443
Total Liabilities and Fund Balance	\$ 272,096	\$ 4,115,732	\$ 1,060,615	\$ 5,448,443

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2019

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
Revenues:				
Intergovernmental revenues	\$ 1,161,958	\$ 1,585,412	\$ 2,181,064	\$ 4,928,434
Investment income	20,450	8,408	28,169	57,027
Other	-	202,390	-	202,390
Total revenues	1,182,408	1,796,210	2,209,233	5,187,851
Expenditures:				
Current:				
Public works	-	-	2,240,803	2,240,803
Police	1,764,395	-	-	1,764,395
Program expenditures	-	1,796,210	-	1,796,210
Total expenditures	1,764,395	1,796,210	2,240,803	5,801,408
Excess of Revenues Over Expenditures	(581,987)	-	(31,570)	(613,557)
Other Financing Sources (Uses):				
Sale of capital assets	69,654	-	-	69,654
Transfers in	750,000	-	-	750,000
Transfers out	(2,155,418)	-	-	(2,155,418)
Total other financing sources (uses)	(1,335,764)	-	-	(1,335,764)
Net Change in Fund Balance	(1,917,751)	-	(31,570)	(1,949,321)
Fund Balance:				
Beginning of year	1,917,751	-	1,028,013	2,945,764
End of year	\$ -	\$ -	\$ 996,443	\$ 996,443