

City of Bethlehem, Pennsylvania

Financial Statements and Supplementary
Information

Year Ended December 31, 2009 with
Independent Auditor's Report

CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2009

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YEAR ENDED DECEMBER 31, 2009

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Independent Auditor's Report

The Honorable John B. Callahan, Mayor, and
Honorable Members of City Council
City of Bethlehem, Pennsylvania

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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Bethlehem Redevelopment Authority, whose statements represent \$2,991,264, \$7,011,640, (\$4,020,376), \$814,628, and \$831,571 of the assets, liabilities, net assets, revenues, and expenses, respectively, of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Bethlehem Redevelopment Authority, is based 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Bethlehem Area Public Library and the Bethlehem Parking Authority were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2010, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages i through xiii and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maher Duessel

Harrisburg, Pennsylvania
August 20, 2010

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, 2009 and 2008. 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 assets decreased by \$6,662,821 in 2009 and by \$1,940,497 in 2008.

In the City's governmental activities, net assets decreased by \$4,946,729 in 2009 and by \$4,333,254 in 2008. In 2009, the decrease in net assets is the result of an increase of \$3,225,356 in police and fire expenditures along with an increase in deferred revenue of \$2,200,937. Deferred revenue represents funds received by the City, but not yet earned. In 2008, the decrease in net assets was mainly the result of significant one-time unrestricted revenues recognized in 2007, but the funds were used to pay general expenditures in 2008.

In the City's business-type activities, net assets decreased by \$1,716,092 in 2009 and increased by \$2,392,757 in 2008. In 2009, the decrease is the result of a decrease in sewer tapping fee revenues and increasing expenditures including a \$901,486 increase in depreciation expense for 2009. In 2008, the increase is the result of the Bethlehem Authority (Authority), a blended component unit, selling land. The 2008 gain recorded for the sale of land was \$1,650,000.

Overview Of The Financial Statements

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

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

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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

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

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

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

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

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

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

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the 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".

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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 9-12 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 13-14.

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 15-17.

General Fund Budgetary Highlights

The General Fund expenditure budget for fiscal year 2009 was approximately \$69.7 million. This was an increase of \$2.4 million over the previous year amended budget. There were no material amendments to the 2009 budget. Actual expenditures were approximately \$8.2 million less than budgeted due to continued revenue decline from the effects of the economy. Budgeted expenditures were cut or delayed due to current economic conditions.

The General Fund complied with budgetary financial policies approved by the City Council.

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 18-66 of this report.

Other Information. Required supplementary information can be found on pages 67-71 of this report. The combining statements referred to earlier in connection with governmental fund types

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

are presented immediately following the required supplementary information section. Combining schedules can be found on pages 72-73 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities exceeded assets at the close of the end of December 31, 2009 by \$19,298,292 and \$12,635,471 in 2008.

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

City's Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Current assets	\$ 17,553,677	\$ 20,850,071	\$ 7,421,847	\$ 6,756,323	\$ 24,975,524	\$ 27,606,394
Capital assets	56,110,246	54,414,773	103,056,231	106,264,869	159,166,477	160,679,642
Other assets	4,308,271	4,331,723	18,741,103	21,895,296	23,049,374	26,227,019
Total assets	\$ 77,972,194	\$ 79,596,567	\$ 129,219,181	\$ 134,916,488	\$ 207,191,375	\$ 214,513,055
Current liabilities	\$ 32,567,079	\$ 24,118,647	\$ 8,412,585	\$ 7,899,573	\$ 40,979,664	\$ 32,018,220
Noncurrent liabilities	72,322,116	77,448,192	113,187,887	117,682,114	185,510,003	195,130,306
Total liabilities	\$ 104,889,195	\$ 101,566,839	\$ 121,600,472	\$ 125,581,687	\$ 226,489,667	\$ 227,148,526
Net assets:						
Invested in capital assets, net of related debt	\$ 29,488,800	\$ 28,862,147	\$ 2,982,508	\$ 4,668,742	\$ 32,471,308	\$ 33,530,889
Restricted	479,712	485,108	-	-	479,712	485,108
Unrestricted	(56,885,513)	(51,317,527)	4,636,201	4,666,059	(52,249,312)	(46,651,468)
Total net assets (deficit)	\$ (26,917,001)	\$ (21,970,272)	\$ 7,618,709	\$ 9,334,801	\$ (19,298,292)	\$ (12,635,471)

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

City's Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Program revenues:						
Charges for services	\$ 10,885,621	\$ 11,490,167	\$ 31,219,875	\$ 31,793,285	\$ 42,105,496	\$ 43,283,452
Operating grants and contributions	9,164,593	10,744,547	-	5,000	9,164,593	10,749,547
Capital grants	2,205,877	2,477,503	-	-	2,205,877	2,477,503
General revenues:						
Taxes	30,076,399	30,370,725	-	-	30,076,399	30,370,725
Investment earnings	132,683	364,204	636,044	804,245	768,727	1,168,449
Unrestricted grants	9,037,540	3,522,631	-	-	9,037,540	3,522,631
Total revenues	61,502,713	58,969,777	31,855,919	32,602,530	93,358,632	91,572,307
Expenses:						
General government	847,987	834,561	-	-	847,987	834,561
Administrative	1,777,301	1,631,796	-	-	1,777,301	1,631,796
Community development	5,681,316	5,681,940	-	-	5,681,316	5,681,940
Parks and public property	4,054,344	4,523,664	-	-	4,054,344	4,523,664
Public works	8,672,992	7,690,023	-	-	8,672,992	7,690,023
Police	17,023,080	14,619,973	-	-	17,023,080	14,619,973
Fire	10,653,641	9,831,392	-	-	10,653,641	9,831,392
General expenditures	12,475,941	12,922,339	-	-	12,475,941	12,922,339
Civic	101,182	110,852	-	-	101,182	110,852
Library	1,215,372	1,175,830	-	-	1,215,372	1,175,830
Program expenditures	2,765,411	2,903,064	-	-	2,765,411	2,903,064
Interest on long-term debt	3,813,358	3,754,522	-	-	3,813,358	3,754,522
Water fund	-	-	19,343,443	18,310,548	19,343,443	18,310,548
Sewer Fund	-	-	10,029,777	9,694,274	10,029,777	9,694,274
Other non-major fund	-	-	1,566,308	1,478,026	1,566,308	1,478,026
Total expenses	69,081,925	65,679,956	30,939,528	29,482,848	100,021,453	95,162,804
Change in net assets before transfers and special item	(7,579,212)	(6,710,179)	916,391	3,119,682	(6,662,821)	(3,590,497)
Transfers	2,632,483	2,376,925	(2,632,483)	(2,376,925)	-	-
Special item	-	-	-	1,650,000	-	1,650,000
Change in net assets	(4,946,729)	(4,333,254)	(1,716,092)	2,392,757	(6,662,821)	(1,940,497)
Net assets:						
Beginning	(21,970,272)	(17,637,018)	9,334,801	6,942,044	(12,635,471)	(10,694,974)
Ending	<u>\$ (26,917,001)</u>	<u>\$ (21,970,272)</u>	<u>\$ 7,618,709</u>	<u>\$ 9,334,801</u>	<u>\$ (19,298,292)</u>	<u>\$ (12,635,471)</u>

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Governmental activities. Governmental activities decreased the City's net assets by \$4,946,729. Key elements of this decrease are as follows:

- In 2009, the decrease in net assets is the result of an increase of \$3,225,356 in police and fire expenditures along with an increase in deferred revenue of \$2,200,937. Deferred revenue represents funds received by the City, but not yet earned.

Business-type activities. Business-type activities decreased the City's net assets by \$1,716,092. Key elements of this change are as follows:

- In 2009, the decrease is the result of a decrease in sewer tapping fees and increasing expenditures including a \$901,486 increase in depreciation expense for 2009.

Financial Analysis of the Major Funds

General Fund

Revenues of the general fund totaled \$56,085,446 for the year ended December 31, 2009. The following represents a summary of general fund revenue, for the years ended December 31, 2009 and 2008 by source, along with changes from 2008:

	2009	2008	Change From 2008 to 2009	Percentage Change
Taxes	\$ 29,643,510	\$ 30,117,492	\$ (473,982)	-1.57%
Licenses and permits	1,858,966	2,812,433	(953,467)	-33.90%
Intergovernmental revenues	8,573,933	7,025,017	1,548,916	22.05%
Fines and forfeitures	531,092	522,382	8,710	1.67%
Departmental earnings	7,325,065	8,488,366	(1,163,301)	-13.70%
Other charges	890,107	1,092,744	(202,637)	-18.54%
Municipal recreation	457,700	480,308	(22,608)	-4.71%
Investment income	7,156	119,629	(112,473)	-94.02%
Host fee	5,251,032	-	5,251,032	100.00%
Other	1,546,885	2,225,377	(678,492)	-30.49%
Total	\$ 56,085,446	\$ 52,883,748	\$ 3,201,698	6.05%

Host Fee is a new revenue source from the Sand's Casino which opened in May 2009 in Bethlehem, Pennsylvania.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Licenses and Permits decreased \$953,467 from 2008 to 2009. The decrease was due to 2008 including building and electrical permits related to the construction of the Sands casino.

Intergovernmental revenues increased \$1,548,916 from 2008 to 2009. The increase is related to receipt of a police technology grant in the amount of \$1,202,005 along with an increase in City Health grants of \$188,813.

Departmental Earnings decreased \$1,163,271 from 2008 to 2009. The decrease was composed of a decrease of \$1,124,787 in Wireless 9-1-1 revenues, a decrease of \$354,796 in Recycling-Sale of Materials, and an increase in Ambulance Fees of \$170,071.

Other revenue decreased \$678,492 from 2008 to 2009. The decrease is due to a reduction of \$1,109,286 in the amount of funds received from the Stakeholder's Agreement along with an increase in the Sundry account of \$278,429.

General fund expenditures totaled \$54,941,894, which represents an increase of \$2,669,896, or 5% from 2008. The following represents a summary of general fund expenditures for the years ended December 31, 2009 and 2008, by function, along with changes from 2008:

	2009	2008	Change From 2008 to 2009	Percentage Change
General governmental	\$ 790,685	\$ 768,001	\$ 22,684	2.95%
Administrative	1,538,213	1,443,919	94,294	6.53%
Community development	5,455,713	5,109,034	346,679	6.79%
Parks and public property	2,746,333	2,939,614	(193,281)	-6.58%
Public works	4,713,291	4,504,710	208,581	4.63%
Police	16,050,762	14,151,970	1,898,792	13.42%
Fire	9,703,503	9,011,288	692,215	7.68%
General expenditures	12,475,941	12,922,339	(446,398)	-3.45%
Civic	101,182	110,852	(9,670)	-8.72%
Library	1,194,000	1,138,000	56,000	4.92%
Debt service - principal	166,878	156,065	10,813	6.93%
Debt service - interest	5,393	16,206	(10,813)	-66.72%
Total	\$ 54,941,894	\$ 52,271,998	\$ 2,669,896	5.11%

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

- Police expenses increased by \$1,898,792 due to salary and other contractual increases as well as equipment purchases.

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Management's Discussion and Analysis (Unaudited)

- Fire expenses increased by \$692,215 due to salary and other contractual increases as well as equipment purchases. Overtime increased by \$364,040 from 2008 to 2009.
- General expenditures decreased by \$446,398 due to several factors. Medical insurance decreased by \$1,105,907 from 2008 to 2009. This represents a carryover of unpaid medical claims into 2010. Pension expense increased by \$665,217 from 2008 to 2009 due to an increase in the City's unfunded liability.

Other Non-Major Governmental Funds

The Other Non-Major Governmental Funds revenues are derived from specific sources and are designated 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, 2009, the fund balance - reserved for employees' retirement pension benefits was \$105,676,354. In 2004, the City issued a pension bond to fund the unfunded liability as of December 31, 2004. The average interest rate all inclusive with costs of the pension bond is 5.5%. The Fund returned 17.58% in 2009.

Capital Assets

The City's investment in capital assets for its government and business-type activities as of December 31, 2008 amounted to \$56,110,246 and \$103,056,231 (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 \$665,387 towards the installation of a new trunking radio system that was completed in 2009.
- The City spent \$507,885 towards a wireless mesh public safety data and video network.
- The City spent \$415,764 to purchase a new fire truck.
- The City spent \$356,622 on the purchase of new garbage trucks as part of the City's recycling program.

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

- The City spent \$1,627,253 on the replacement of the backwash pumps, drives, piping, flow meter, electrical work, programming, hardware, and backwash storage tank to obtain

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Management's Discussion and Analysis (Unaudited)

- optimum backwashing of newly installed filters.
- The City spent \$138,925 to upgrade Water Treatment Plant and Water Control SCADA systems due to obsolescence of current system.
- The City spent \$126,689 to repair a transmission main leak.

Additional information on the City's capital assets can be found at Note 4 on pages 38-41.

Long-Term Debt

The City's net nonelectoral debt of \$53,514,557, less deductions of \$30,081,443 as of May 10, 2010, is well below the legal limit of \$143,003,660, by \$89,489,103. Additional information on the City's long-term debt can be found at Note 7 on pages 43-52 of this report.

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

Economic Outlook

As the effects of the sour worldwide economy remain, the City continued to see a mix of projects develop, though at a slower pace than they had been in more prosperous times. Large projects were delayed and the steady stream of smaller projects thinned as corporations and individuals struggled to find financing. However, progress in many areas continued.

Cigars International opened its \$10 million, 115,000-square-foot headquarters distribution warehouse in Lehigh Valley Industrial Park VII. The building boasts a 40,000-square-foot humididor as well as offices for the Bethlehem-based firm, which moved 175 employees from its former headquarters in East Allen Township into the City. An additional 50 new warehouse, sales, marketing and information technology workers are housed in the new building for a total of 225 new jobs. The project joins other successful projects in LVIP VII like U.S. Cold Storage, Brandenburg Industrial Services, RMS, Synchronoss Technologies, LVIP headquarters and Spillman Farmer Architects.

A little over a year since celebrating its grand opening, Sands Casino Resort Bethlehem has resumed construction of its 300-room, 11-story hotel. Hundreds of construction jobs will be filled while the project progresses over the next year. Sands is expected to fill 100 positions to staff the hotel which is expected to open in May 2011. The project marked another milestone when table games opened in July 2010. Expanded gaming opportunities meant expanded employment opportunities and 400 jobs now support the 89 table games. In 13 months, Bethlehem Sands has brought roughly 1,300 jobs to the City.

The SteelStacks arts and cultural campus also saw significant advances. ArtsQuest Center for Performing Arts celebrated a beam signing construction milestone as the final framework for the \$25.8 million, 65,000-square-foot project was completed. One hundred seventy construction workers are currently at work on the building which is expected to employ 100 full time staff

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Management's Discussion and Analysis (Unaudited)

when it opens. Also, PBS 39-WLVT hosted a ceremonial groundbreaking for PBS39 Public Media and Education Center, its \$17 million, 30,000-square-foot project.

Construction also continued at Majestic Bethlehem Center, a 441-acre master planned intermodal business park. Total project cost is estimated at \$500 million. It is expected to create 8 million square feet of mixed office/manufacturing warehouse space phased over the next 10 years and lead to the creation of 5,000 new jobs. Site work is currently underway for a 1.05 million-square-foot building.

The City continued its effort to attract technology businesses which bring high-paying and family-sustaining jobs to the community. Through the Enterprise Zone program, the City is developing a fourth technology center similar to those built in the mid-1990s and early-2000s. The center will likely be smaller than its predecessors and is not designed to have a single tenant grow to eventually take over the property.

TechVentures2, the \$17 million, 47,000-square-foot expansion of Ben Franklin Technology Partners TechVentures incubator, is another effort to encourage high tech business in Bethlehem. The project will provide space for 40 companies who will employ 200 people and provide 20 internships. A parking deck to complement the project has already been completed and ground broke for construction in 2010.

Long seen as a symbol of stability, security and community growth, commercial banks have been suffering in the world market. However, two have moved forward with plans to open branches on the Southside of Bethlehem. Construction has begun on a PNC Bank at Evans and Hayes streets which is expected to open in 2011. TD Bank submitted plans to build a branch along Broadway on the site of a former Getty gas station and convenience store. The 3,000-square-foot building could lead to the creation of 15 jobs.

The downtown business districts saw a shuffling of businesses as merchants adjusted to the changing economic climate. New businesses such as Apotheca Salon & Boutique and Seasons Olive Oil & Vinegar Taproom replaced longtime businesses on the Southside and Northside. The Attic, an existing downtown business, found new, expanded space when it moved from Broad Street to Main Street.

The completion of the building at 574 Main St. on the corner of Broad and Main streets in the heart of Historic Downtown Bethlehem brought two new businesses to the City. Allied Building Corp., a construction management firm, invested \$450,000 on interior renovations for its new office. The building gives Allied space for 12 full-time office staff as well as 13 field staff on the second and third floors. Sophistikate, a new boutique, will occupy about 900 square feet on the first floor.

The following is a list of other development projects:

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Residential		Status as of August 2010
Applebutter Village	5,200,000	Plans Submitted
Bethlehem Fields	32,000,000	Under Construction
Cherokee Court Condos	1,800,000	Plans Approved
Claremont Development	500,000	Plans Approved
Eaton Ave Development	1,350,000	Plans Approved
Elliotte Ave Development	3,600,000	Plans Submitted
Evans St. Apartments	3,000,000	Plans Approved
Evans St. Townhomes	3,000,000	Under Construction
Glenwood Subdivision	900,000	Plans Submitted
Habitat for Humanity 9th & Williams	1,200,000	Under Construction
Homestead Court Condos	3,300,000	Under Construction
Linden St Condos	2,500,000	Plans Submitted
Mary Street Townhouses	500,000	Under Construction
Miga-Glenwood	900,000	Plans Submitted
Minsi Ridge	4,050,000	Under Construction
Mountain Park Condominiums	6,000,000	Under Construction
Negrao Apartments	1,500,000	Under Construction
Overlook at Saucon Creek	3,000,000	Under Construction
Packer Ave Apartments	500,000	Under Construction
Park View Commons	3,000,000	Under Construction
Riverview Heights	5,000,000	Under Construction
Rose Hill Court Condos	750,000	Plans Approved
Saucon Square Condominiums	3,500,000	Under Construction
Silk Mill Apartments	13,000,000	Under Construction
Steel General Office	70,000,000	Plans Submitted
Stever Mills on Creek Rd.	15,000,000	Under Construction
Villas at Saucon Valley	12,000,000	Under Construction
Residential Subtotal	197,050,000	
Residential/Senior		
Alexandria Manor	2,010,000	Plans Approved
Bethlehem Manor	12,500,000	Under Construction
Central Park West	5,500,000	Under Construction
Cottages @ Monocacy Manor	4,500,000	Plans Approved
Lengyel Apartments	1,600,000	Plans Approved
Moravian Village	12,900,000	Plans Submitted
Turnberry Mews	10,000,000	Construction Completed
Residential/Senior Subtotal	49,010,000	

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Institutional		Status as of August 2010
Ben Franklin Tech Expansion	17,000,000	Under Construction
Lehigh University Science & Env Building	5,500,000	Under Construction
Moravian Administrative Center@ Monocacy	1,032,500	Under Construction
Moravian College Hurd Campus Dorms	1,600,000	Construction Completed
Northampton Community College S Bethlehem	17,000,000	Under Construction
Institutional Subtotal	42,132,500	
Mixed-Use		
Plaza on 8th Mixed Use/Commercial	25,000,000	Under Construction
Bethworks Now (incl. PBS/SteelStax)	200,000,000	Under Construction
Farr Building	5,500,000	Under Construction
Martin Tower	300,000,000	Plans Approved
Wyandotte Mixed Use	750,000	Plans Approved
Mixed-Use Subtotal	531,250,000	
Industrial		
Cigars International	13,200,000	Construction Completed
Majestic Bethlehem Center	500,000,000	Under Construction
Patriot Distribution	11,770,000	Plans Submitted
Industrial Subtotal	524,970,000	
Commercial		
Allied Building Corporation HQ	450,000	Under Construction
Eaton Pointe	5,119,500	Plans Approved
Freedom Lawn Care	533,500	Plans Submitted
Flat Iron	1,000,000	Under Construction
Glemser Technologies	2,250,000	Plans Submitted
Main Street Depot / Donovan	700,000	Construction Completed
One East Broad	17,000,000	Construction Completed
One West Fourth	2,000,000	Under Construction
Polk St. North Building	18,000,000	Plans Approved
PNC Bank @ Hayes St	750,000	Under Construction
SandsBethWorks	800,000,000	Under Construction
Schoenersville Road Development	50,000,000	Portions Under Construction / Planning
Stefko Grocery	1,830,000	Plans Submitted
TD Bank @ Five-Points	585,800	Plans Approved
Third and Taylor Office Building	9,750,000	Plans Approved
Commercial Subtotal	909,518,800	
Grand Total	\$ 2,253,931,300	

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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 blended 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 ASSETS

DECEMBER 31, 2009

Assets	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Current assets:					
Cash and cash equivalents	\$ 6,136,179	\$ 1,048,847	\$ 7,185,026	\$ 754,476	\$ 7,939,502
Investments	195,147	86,308	281,455	1,694,691	1,976,146
Receivables (net of allowance for uncollectibles):					
Taxes	1,312,201	-	1,312,201	-	1,312,201
Accounts	582,407	5,197,960	5,780,367	672,948	6,453,315
Pledges	-	-	-	75,477	75,477
Other	1,708,431	-	1,708,431	13,200	1,721,631
Accrued interest	-	8,042	8,042	-	8,042
Due from other governments	8,192,157	-	8,192,157	-	8,192,157
Due from component unit	35,117	-	35,117	-	35,117
Internal balances	(607,962)	607,962	-	-	-
Inventories	-	472,728	472,728	-	472,728
Prepaid assets	-	-	-	22,361	22,361
Total current assets	17,553,677	7,421,847	24,975,524	3,233,153	28,208,677
Noncurrent assets:					
Loans receivable	3,006,566	-	3,006,566	-	3,006,566
Restricted cash and cash equivalents	-	1,630,517	1,630,517	-	1,630,517
Restricted investments	-	13,468,312	13,468,312	1,236,631	14,704,943
Capital assets, not being depreciated	11,059,522	2,458,696	13,518,218	2,223,752	15,741,970
Capital assets, net	45,050,724	100,597,535	145,648,259	14,419,588	160,067,847
Other assets	1,301,705	3,642,274	4,943,979	1,984,163	6,928,142
Total noncurrent assets	60,418,517	121,797,334	182,215,851	19,864,134	202,079,985
Total Assets	77,972,194	129,219,181	207,191,375	23,097,287	230,288,662

(Continued)

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

Liabilities	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Current liabilities:					
Net pooled cash position	4,092,014	-	4,092,014	-	4,092,014
Accounts payable and other accrued expenses	7,339,507	1,180,964	8,520,471	386,411	8,906,882
Accrued payroll	1,388,871	289,165	1,678,036	114,101	1,792,137
Accrued vacation and other compensated absences	833,930	639,356	1,473,286	292,301	1,765,587
Claims payable	3,751,376	-	3,751,376	-	3,751,376
Interest payable	754,392	452,606	1,206,998	134,228	1,341,226
Escrow liabilities	5,280	-	5,280	-	5,280
Current portion of long-term debt	5,619,000	5,657,513	11,276,513	1,075,004	12,351,517
Current portion of capital lease obligations	43,061	28,551	71,612	-	71,612
Due to agency fund	1,600,666	164,430	1,765,096	-	1,765,096
Due to primary government	-	-	-	35,117	35,117
Deferred revenue	7,138,982	-	7,138,982	594,659	7,733,641
Total current liabilities	32,567,079	8,412,585	40,979,664	2,631,821	43,611,485
Noncurrent liabilities:					
Accrued vacation and other compensated absences, net of current portion	2,971,100	-	2,971,100	-	2,971,100
Accrued sick pay	-	123,487	123,487	-	123,487
Long-term debt, net of current portion	67,875,000	110,989,217	178,864,217	17,307,358	196,171,575
Bond premium, net	-	1,741,069	1,741,069	-	1,741,069
Capital lease obligation, net of current portion	-	34,523	34,523	-	34,523
Other post-employment benefit liability	1,476,016	299,591	1,775,607	-	1,775,607
Deferred revenue	-	-	-	533,332	533,332
Total noncurrent liabilities	72,322,116	113,187,887	185,510,003	17,840,690	203,350,693
Total Liabilities	104,889,195	121,600,472	226,489,667	20,472,511	246,962,178
Net Assets					
Invested in capital assets, net of related debt	29,488,800	2,982,508	32,471,308	4,432,464	36,903,772
Restricted	479,712	-	479,712	1,236,631	1,716,343
Unrestricted	(56,885,513)	4,636,201	(52,249,312)	(3,044,319)	(55,293,631)
Total Net Assets	\$ (26,917,001)	\$ 7,618,709	\$ (19,298,292)	\$ 2,624,776	\$ (16,673,516)

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2009

Function/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 847,987	\$ -	\$ -	\$ -
Administrative	1,777,301	474,539	-	-
Community development	6,037,938	2,581,590	5,860,760	366,622
Parks and public property	4,054,344	673,617	158,048	428,774
Public works	8,316,370	1,530,461	1,601,061	-
Police	17,023,080	2,818,538	1,537,156	1,281,405
Fire	10,653,641	2,806,876	7,568	129,076
General expenditures	12,475,941	-	-	-
Civic	101,182	-	-	-
Library	1,215,372	-	-	-
Program expenditures	2,765,411	-	-	-
Interest on long-term debt	3,813,358	-	-	-
Total governmental activities	69,081,925	10,885,621	9,164,593	2,205,877
Business-type activities:				
Water Fund	19,343,443	17,807,406	-	-
Sewer Fund	10,029,777	11,956,823	-	-
Other non-major funds	1,566,308	1,455,646	-	-
Total business-type activities	30,939,528	31,219,875	-	-
Total primary government	\$ 100,021,453	\$ 42,105,496	\$ 9,164,593	\$ 2,205,877
Component units:				
Bethlehem Parking Authority	\$ 4,014,358	\$ 3,711,699	\$ -	\$ -
Bethlehem Public Library	3,751,533	282,396	3,222,965	-
Bethlehem Redevelopment Authority	831,571	-	-	804,923
Total component units	\$ 8,597,462	\$ 3,994,095	\$ 3,222,965	\$ 804,923

General Revenues:

Real estate taxes and other taxes
Grants and other charges not restricted
to specific programs

Investment income

Transfers

Total general revenues and transfers

Change in Net Assets

Net Assets:

Beginning of year - restated

End of year

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

Net (Expense) Revenue and
Changes in Net Assets

Primary Government				Total
Governmental Activities	Business-Type Activities	Total	Component Units	Reporting Entity
\$ (847,987)	\$ -	\$ (847,987)	\$ -	\$ (847,987)
(1,302,762)	-	(1,302,762)	-	(1,302,762)
2,771,034	-	2,771,034	-	2,771,034
(2,793,905)	-	(2,793,905)	-	(2,793,905)
(5,184,848)	-	(5,184,848)	-	(5,184,848)
(11,385,981)	-	(11,385,981)	-	(11,385,981)
(7,710,121)	-	(7,710,121)	-	(7,710,121)
(12,475,941)	-	(12,475,941)	-	(12,475,941)
(101,182)	-	(101,182)	-	(101,182)
(1,215,372)	-	(1,215,372)	-	(1,215,372)
(2,765,411)	-	(2,765,411)	-	(2,765,411)
(3,813,358)	-	(3,813,358)	-	(3,813,358)
(46,825,834)	-	(46,825,834)	-	(46,825,834)
-	(1,536,037)	(1,536,037)	-	(1,536,037)
-	1,927,046	1,927,046	-	1,927,046
-	(110,662)	(110,662)	-	(110,662)
-	280,347	280,347	-	280,347
(46,825,834)	280,347	(46,545,487)	-	(46,545,487)
-	-	-	(302,659)	(302,659)
-	-	-	(246,172)	(246,172)
-	-	-	(26,648)	(26,648)
-	-	-	(575,479)	(575,479)
30,076,399	-	30,076,399	-	30,076,399
9,037,540	-	9,037,540	-	9,037,540
132,683	636,044	768,727	181,934	950,661
2,632,483	(2,632,483)	-	-	-
41,879,105	(1,996,439)	39,882,666	181,934	40,064,600
(4,946,729)	(1,716,092)	(6,662,821)	(393,545)	(7,056,366)
(21,970,272)	9,334,801	(12,635,471)	3,018,321	(9,617,150)
\$ (26,917,001)	\$ 7,618,709	\$ (19,298,292)	\$ 2,624,776	\$ (16,673,516)

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2009

	General Fund	Debt Service Fund	Other Non-Major Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 311,519	\$ -	\$ 5,787,956	\$ 6,099,475
Investments	2,812	-	192,335	195,147
Receivables:				
Taxes	1,312,201	-	-	1,312,201
Accounts	417,067	-	-	417,067
Loans	14,000	-	2,992,566	3,006,566
Other	1,697,627	-	10,804	1,708,431
Due from other funds	-	-	771,995	771,995
Due from component unit	35,117	-	-	35,117
Due from other governments	7,444,502	-	747,655	8,192,157
Total Assets	\$ 11,234,845	\$ -	\$ 10,503,311	\$ 21,738,156
Liabilities and Fund Balance				
Liabilities:				
Net pooled cash position	\$ 4,092,014	\$ -	\$ -	\$ 4,092,014
Accounts payable and other accrued expenses	4,991,359	-	2,348,148	7,339,507
Accrued payroll	1,361,941	-	26,930	1,388,871
Accrued vacation and other compensated absences	805,541	-	28,389	833,930
Escrow liabilities	5,280	-	-	5,280
Due to other funds	2,915,232	-	65,570	2,980,802
Deferred revenues	5,612,139	-	4,223,865	9,836,004
Total Liabilities	19,783,506	-	6,692,902	26,476,408
Fund Balances:				
Reserved for:				
Highways and streets	-	-	250,402	250,402
Capital projects	-	-	3,560,007	3,560,007
Parks and public property	229,310	-	-	229,310
Community development	1,030,161	-	-	1,030,161
Unreserved, reported in:				
General Fund	(9,808,132)	-	-	(9,808,132)
Total Fund Balance	(8,548,661)	-	3,810,409	(4,738,252)
Total Liabilities and Fund Balance	\$ 11,234,845	\$ -	\$ 10,503,311	\$ 21,738,156

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 ASSETS

DECEMBER 31, 2009

Total Fund Balance - Governmental Funds	\$ (4,738,252)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	56,110,246
Real estate taxes, earned income taxes and the stakeholder agreement not collected within a period of time subsequent to year-end are not deferred in the statement of net assets.	2,697,022
Accrued vacation and other compensated absences not due within the next twelve months is recorded on the statement of net assets.	(2,971,100)
Other post-employment benefit liability not due within the next twelve months is recorded on the statement of net assets.	(1,476,016)
Debt issuance costs and loss on refunding are deferred and amortized on the statement of net assets.	1,301,705
Long-term liabilities, including bonds payable and capital lease obligations, are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds	(73,494,000)
Capital leases	(43,061)
Accrued interest payable included on the statement of net assets.	(754,392)
Assets and liabilities of the internal service fund reported in the statement of net assets are used to charge the costs of insurance to individual funds and are not reported in the funds.	<u>(3,549,153)</u>
Net Assets - Governmental Activities	<u><u>\$ (26,917,001)</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, 2009

	General Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 29,643,510	\$ -	\$ -	\$ 29,643,510
Licenses and permits	1,858,966	-	-	1,858,966
Intergovernmental revenues	8,573,933	-	5,354,770	13,928,703
Fines and forfeitures	531,092	-	-	531,092
Departmental earnings	7,325,065	-	-	7,325,065
Other charges	890,107	-	-	890,107
Municipal recreation	457,700	-	-	457,700
Investment income	7,156	-	125,527	132,683
Host fee	5,251,032	-	-	5,251,032
Other	1,546,885	-	165,398	1,712,283
Total revenues	56,085,446	-	5,645,695	61,731,141
Expenditures:				
Current:				
General government	790,685	-	-	790,685
Administrative	1,538,213	-	-	1,538,213
Community development	5,455,713	-	-	5,455,713
Parks and public property	2,746,333	-	-	2,746,333
Public works	4,713,291	-	1,468,586	6,181,877
Police	16,050,762	-	-	16,050,762
Fire	9,703,503	-	-	9,703,503
General expenditures	12,475,941	-	-	12,475,941
Civic	101,182	-	-	101,182
Library	1,194,000	-	-	1,194,000
Program expenditures	-	-	2,765,411	2,765,411
Capital outlays	-	-	5,909,671	5,909,671
Debt service - principal	166,878	5,271,000	-	5,437,878
Debt service - interest	5,393	3,399,345	173,216	3,577,954
Total expenditures	54,941,894	8,670,345	10,316,884	73,929,123
Excess (Deficiency) of Revenues Over Expenditures	1,143,552	(8,670,345)	(4,671,189)	(12,197,982)
Other Financing Sources (Uses):				
Transfers in	2,232,482	8,670,345	410,660	11,313,487
Transfers out	(8,681,004)	-	-	(8,681,004)
Total other financing sources (uses)	(6,448,522)	8,670,345	410,660	2,632,483
Net Change in Fund Balance	(5,304,970)	-	(4,260,529)	(9,565,499)
Fund Balance:				
Beginning of the year - restated	(3,243,691)	-	8,070,938	4,827,247
End of the year	\$ (8,548,661)	\$ -	\$ 3,810,409	\$ (4,738,252)

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, 2009

Net Change in Fund Balance - Governmental Funds	\$ (9,565,499)
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 (\$8,135,830) exceeded depreciation (\$6,342,936) and loss on disposal of capital assets (\$97,421) in the current period.	1,695,473
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.	(228,428)
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 assets. This amount is the net effect of those differences in the treatment of long-term debt.	
Repayment of principal	5,437,878
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.	(69,015)
Change in accrued vacation and other compensated absences not due within the next twelve months in the statement of activities.	(123,553)
Change in other post-employment benefit payments not due within the next twelve months in the statement of activities.	(412,432)
Governmental funds report the effect of issuance costs, premiums discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(166,389)
Activities of the internal service fund are reported as net income within the statement of activities.	(1,514,764)
Change in Net Assets - Governmental Activities	\$ (4,946,729)

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - PROPRIETARY FUNDS

DECEMBER 31, 2009

Assets	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Current assets:					
Cash and cash equivalents	\$ 327,033	\$ 685,678	\$ 36,136	\$ 1,048,847	\$ 36,704
Investments	54,067	32,241	-	86,308	-
Accounts receivable, net	2,663,166	2,534,794	-	5,197,960	165,340
Accrued interest	8,042	-	-	8,042	-
Due from other funds	462,788	153,529	10,570	626,887	179
Inventories	426,513	23,327	22,888	472,728	-
Total current assets	3,941,609	3,429,569	69,594	7,440,772	202,223
Restricted assets:					
Cash and cash equivalents	1,623,808	-	6,709	1,630,517	-
Investments	13,468,312	-	-	13,468,312	-
Capital assets, not being depreciated	1,005,638	1,278,058	175,000	2,458,696	-
Capital assets, net	92,328,664	7,620,748	648,123	100,597,535	-
Other assets	3,530,419	111,855	-	3,642,274	-
Total Assets	\$ 115,898,450	\$ 12,440,230	\$ 899,426	\$ 129,238,106	\$ 202,223
Liabilities and Net Assets					
Liabilities:					
Accounts payable and other accrued expenses	\$ 309,012	\$ 448,669	\$ 59,330	\$ 817,011	\$ -
Accrued payroll	163,842	108,009	17,314	289,165	-
Accrued vacation and other compensated absences	346,103	228,184	65,069	639,356	-
Construction accounts payable	363,953	-	-	363,953	-
Claims payable	-	-	-	-	3,751,376
Interest payable	397,718	47,595	7,293	452,606	-
Current portion of long-term debt	5,205,513	396,000	56,000	5,657,513	-
Current portion of capital lease obligation	-	-	28,551	28,551	-
Due to other funds	-	133,130	50,225	183,355	-
Total current liabilities	6,786,141	1,361,587	283,782	8,431,510	3,751,376
Accrued sick pay	81,988	41,499	-	123,487	-
Long-term debt, net	107,075,217	3,528,000	386,000	110,989,217	-
Bond premium, net	1,741,069	-	-	1,741,069	-
Capital lease obligation, net	-	-	34,523	34,523	-
Other post-employment benefits liability	175,504	97,380	26,707	299,591	-
Total Liabilities	115,859,919	5,028,466	731,012	121,619,397	3,751,376
Net Assets:					
Invested in capital assets, net of related debt	(2,428,911)	5,086,661	324,758	2,982,508	-
Unrestricted	2,467,442	2,325,103	(156,344)	4,636,201	(3,549,153)
Total Net Assets	38,531	7,411,764	168,414	7,618,709	(3,549,153)
Total Liabilities and Net Assets	\$ 115,898,450	\$ 12,440,230	\$ 899,426	\$ 129,238,106	\$ 202,223

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

CITY OF BETHLEHEM, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
IN NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2009

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other Enterprise Fund		
			Municipal Golf Fund	Total	
Operating Revenues:					
Charges for services	\$ 17,675,134	\$ 11,855,181	\$ 1,445,226	\$ 30,975,541	\$ 6,451,734
Operating Expenses:					
Salaries, wages, and fringe benefits	4,011,411	3,293,350	783,190	8,087,951	-
Professional fees	632,467	296,789	4,960	934,216	-
Utilities	279,553	508,705	44,329	832,587	-
Maintenance and repairs	67,101	190,567	47,775	305,443	-
Department contracts	341,851	1,295,629	92,253	1,729,733	-
Supplies	473,080	679,552	141,329	1,293,961	-
Service charges	2,807,987	1,530,936	275,000	4,613,923	-
Depreciation and amortization	4,843,276	1,790,995	115,451	6,749,722	-
Insurance claims	-	-	-	-	7,975,572
Administration	-	-	-	-	119,710
Other	258,550	287,413	51,135	597,098	-
Total operating expenses	13,715,276	9,873,936	1,555,422	25,144,634	8,095,282
Operating Income (Loss)	3,959,858	1,981,245	(110,196)	5,830,907	(1,643,548)
Non-Operating Revenues (Expenses):					
Investment income	635,166	878	-	636,044	29
Interest expense	(5,628,167)	(155,841)	(10,886)	(5,794,894)	-
Other revenues	132,272	101,642	10,420	244,334	128,755
Total non-operating revenues (expenses)	(4,860,729)	(53,321)	(466)	(4,914,516)	128,784
Change in net assets before transfers	(900,871)	1,927,924	(110,662)	916,391	(1,514,764)
Transfers out	(300,000)	(2,332,483)	-	(2,632,483)	-
Change in Net Assets	(1,200,871)	(404,559)	(110,662)	(1,716,092)	(1,514,764)
Net Assets:					
Beginning of year	1,239,402	7,816,323	279,076	9,334,801	(2,034,389)
End of year	\$ 38,531	\$ 7,411,764	\$ 168,414	\$ 7,618,709	\$ (3,549,153)

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, 2009

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Cash Flows From Operating Activities:					
Receipts from customers	\$ 17,304,846	\$ 11,509,221	\$ 1,445,226	\$ 30,259,293	\$ 6,291,299
Payments to suppliers for services	(5,015,790)	(4,608,023)	(599,904)	(10,223,717)	(6,413,289)
Payment to employees	(3,926,689)	(3,260,408)	(777,100)	(7,964,197)	-
Net cash provided by (used in) operating activities	8,362,367	3,640,790	68,222	12,071,379	(121,990)
Cash Flows From Noncapital Financing Activities:					
Transfers out	(300,000)	(2,332,483)	-	(2,632,483)	-
Other revenues received	132,272	101,642	10,420	244,334	128,755
Net cash provided by (used in) noncapital financing activities	(167,728)	(2,230,841)	10,420	(2,388,149)	128,755
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(2,464,333)	(564,352)	(434,829)	(3,463,514)	-
Principal payments on debt	(5,020,317)	(386,000)	-	(5,406,317)	-
Interest payments on debt	(3,915,151)	(159,397)	(3,593)	(4,078,141)	-
Principal payments on capital lease obligations	-	(22,069)	(27,300)	(49,369)	-
Proceeds from sale of capital assets	-	-	-	-	-
Net cash provided by (used in) capital and related financing activities	(11,399,801)	(1,131,818)	(465,722)	(12,997,341)	-
Cash Flows From Investing Activities:					
Net sales of investments	(358,656)	(29)	-	(358,685)	-
Interest and dividends on investments	635,166	878	-	636,044	29
Net cash provided by (used in) investing activities	276,510	849	-	277,359	29
Net (Decrease) Increase in Cash and Cash Equivalents	(2,928,652)	278,980	(387,080)	(3,036,752)	6,794
Cash and Cash Equivalents:					
Beginning of year	4,879,493	406,698	429,925	5,716,116	29,910
End of year	\$ 1,950,841	\$ 685,678	\$ 42,845	\$ 2,679,364	\$ 36,704

(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, 2009

(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)	\$ 3,959,858	\$ 1,981,245	\$ (110,196)	\$ 5,830,907	\$ (1,643,548)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	4,843,276	1,790,995	115,451	6,749,722	-
Changes in assets and liabilities:					
Accounts receivable	(97,279)	(192,431)	-	(289,710)	(160,256)
Due from other funds	(273,009)	(153,529)	-	(426,538)	(179)
Inventories	(18,632)	(23,327)	(5,088)	(47,047)	-
Other assets	-	-	2,036	2,036	-
Accrued vacation and other compensated absences	15,087	(4,890)	(876)	9,321	-
Accrued payroll	21,899	13,807	681	36,387	-
Accounts payable and other accrued expenses	(136,569)	209,837	16,064	89,332	-
Due to other funds	-	(4,942)	43,865	38,923	(1,794)
Other post-employment benefits liability	47,736	24,025	6,285	78,046	-
Claims payable	-	-	-	-	1,683,787
Net cash provided by (used in) operating activities	<u>\$ 8,362,367</u>	<u>\$ 3,640,790</u>	<u>\$ 68,222</u>	<u>\$ 12,071,379</u>	<u>\$ (121,990)</u>
Noncash investing and financing activities:					
Accretion of capital appreciation bonds	<u>\$ 1,252,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,252,700</u>	<u>\$ -</u>

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET ASSETS

DECEMBER 31, 2009

	Employee Benefit Trust Fund	Agency Fund
<hr/> Assets <hr/>		
Cash and cash equivalents	\$ 300,000	\$ 403,966
Interest and dividends receivable	356,994	-
Contribution receivable	2,213,964	-
Due from the City	-	1,765,096
Investments	102,805,396	190,117
Total Assets	105,676,354	2,359,179
<hr/> Liabilities <hr/>		
Escrow liabilities	-	2,359,179
Total Liabilities	-	\$ 2,359,179
<hr/> Net Assets <hr/>		
Reserved for employees' retirement benefits	105,676,354	
Total Liabilities and Net Assets	\$ 105,676,354	

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

CITY OF BETHLEHEM, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED DECEMBER 31, 2009

	<u>Employee Benefit Trust Fund</u>
Additions:	
<hr/>	
Contributions:	
Employee contributions	\$ 1,339,489
Employer contributions	<u>3,666,617</u>
Total contributions	<u>5,006,106</u>
 Investment earnings:	
Investment income	3,080,284
Realized and unrealized gains, net	<u>12,666,323</u>
Net investment earnings	<u>15,746,607</u>
Total additions	<u>20,752,713</u>
 Deductions:	
<hr/>	
Benefits paid	8,296,711
Administrative costs	<u>575,014</u>
Total deductions	<u>8,871,725</u>
Change in Net Assets	11,880,988
 Net Assets:	
<hr/>	
Beginning of year	<u>93,795,366</u>
End of year	<u><u>\$ 105,676,354</u></u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2009

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 334,084	\$ 215,636	\$ 204,756	\$ 754,476
Investments	1,210	766,233	927,248	1,694,691
Accounts receivable, net	287,991	324,415	60,542	672,948
Pledges receivable	-	75,477	-	75,477
Other receivables	13,200	-	-	13,200
Prepaid expenses	22,361	-	-	22,361
Total current assets	658,846	1,381,761	1,192,546	3,233,153
Restricted investments	-	1,236,631	-	1,236,631
Capital assets, not being depreciated	2,223,752	-	-	2,223,752
Capital assets, net	14,251,391	168,197	-	14,419,588
Other assets	185,445	-	1,798,718	1,984,163
Total Assets	\$ 17,319,434	\$ 2,786,589	\$ 2,991,264	\$ 23,097,287

(Continued)

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2009

(Continued)

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
Liabilities and Net Assets				
Liabilities:				
Accounts payable and other accrued expenses	\$ 99,776	\$ 18,366	\$ 268,269	\$ 386,411
Accrued payroll	48,726	65,375	-	114,101
Accrued vacation and other compensated absences	163,072	129,229	-	292,301
Interest payable	134,228	-	-	134,228
Current portion of long-term debt	538,965	-	536,039	1,075,004
Due to primary government	35,117	-	-	35,117
Deferred revenue	154,015	440,644	-	594,659
Total current liabilities	1,173,899	653,614	804,308	2,631,821
Long-term debt, net	11,100,026	-	6,207,332	17,307,358
Deferred revenue	533,332	-	-	533,332
Total Liabilities	12,807,257	653,614	7,011,640	20,472,511
Net Assets:				
Invested in capital assets, net of related debt	4,263,920	168,197	347	4,432,464
Restricted	-	1,236,631	-	1,236,631
Unrestricted	248,257	728,147	(4,020,723)	(3,044,319)
Total Net Assets	4,512,177	2,132,975	(4,020,376)	2,624,776
Total Liabilities and Net Assets	\$ 17,319,434	\$ 2,786,589	\$ 2,991,264	\$ 23,097,287

(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, 2009

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Total
		Changes for Services	Operating Grants and Contributions	Capital Grants and Contributions	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	
Bethlehem Parking Authority	\$ 4,014,358	\$ 3,711,699	\$ -	\$ -	\$ (302,659)	\$ -	\$ -	\$ (302,659)
Bethlehem Public Library	3,751,533	282,396	3,222,965	-	-	(246,172)	-	(246,172)
Bethlehem Redevelopment Authority	831,571	-	-	804,923	-	-	(26,648)	(26,648)
Total Component Units	\$ 8,597,462	\$ 3,994,095	\$ 3,222,965	\$ 804,923	(302,659)	(246,172)	(26,648)	(575,479)
General Revenues:								
					3,590	168,639	9,705	181,934
					3,590	168,639	9,705	181,934
					(299,069)	(77,533)	(16,943)	(393,545)
Net Assets:								
					4,811,246	2,210,508	(4,003,433)	3,018,321
					\$ 4,512,177	\$ 2,132,975	\$ (4,020,376)	\$ 2,624,776

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

The City was incorporated in 1962 under the provisions of the constitution and general statutes of the Commonwealth of Pennsylvania. 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 assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary 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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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.

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 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. During the year ended December 31, the 2009 property tax assessment for the Sands Casino was not assessed until mid-2009. Since this was an unusual circumstance for a large tax assessment, the City has used 75 days for the collection of the property taxes from the Sands Casino. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, interest on long-term debt service is recorded only when payment is due.

Property taxes, earned income taxes, telephone 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 required to be accounted for in another fund.

The Debt Service Fund is the fund used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

The City reports the following nonmajor governmental funds: Non-Utility Capital Improvements 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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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

The City's Fiduciary Funds account for 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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 fund are charges to citizens for services. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Budgetary Accounting Control

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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 ten 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.

Derivative Financial Instrument

The City has entered into an interest rate swap agreement, which is considered a derivative financial instrument, to manage interest rate exposure in certain long-term debt. Other than the net interest expenditures resulting from this agreement, no amounts are recorded in the financial statements.

Cash, Cash Equivalents, and Investments

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

Investments of the City are stated at fair value. Fair value is determined based on the last reported sales price on the last business day of the year; securities for which no sale was reported on that date are valued at the last reported bid price.

Internal Balances

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

Receivables

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

Stakeholder Agreement Receivable

In December 2007, the City entered into an agreement with certain parties to allow excess sewer capacity to be available to Bethlehem Township, in the event such parties develop

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

within the Township. The transaction has been included in the financial statements as a voluntary non-exchange transaction. As of December 31, 2007, \$2 million was determined to have met the "available" criteria under the modified accrual basis of accounting. Therefore, the General Fund recognized \$2 million in revenue and deferred recognition of the balance, while the full \$5 million was recognized as revenue in the Governmental Activities Statement of Activities as of December 31, 2007. During the year ended December 31, 2008, the General Fund recognized additional revenue of \$1,663,199. During the year ended December 31, 2009, the General Fund recognized additional revenue of \$553,913. As of December 31, 2009, a receivable of \$782,888 and deferred revenue of \$782,888 still remained in the General Fund. Since the full \$5 million was recognized as revenue in the Governmental Activities statement of activities as of December 31, 2007, no revenue is shown for the years ended December 31, 2008 or 2009. Per the agreement, the entire balance should have been received on or before December 31, 2009. \$488,220 of the outstanding balance was received on July 20, 2010. One developer owes the remaining balance and the City has extended the due date of that payment to December 31, 2010. No allowance for uncollectible accounts has been established, as the City is confident payment will be made by December 31, 2010.

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 2009 is as follows:

January 1, 2009	original levy date
January 1, 2009 - March 31, 2009	2% discount period
April 1, 2009 - May 30, 2009	face payment period
May 31, 2009 - December 31, 2009	10% penalty period

In addition, City taxes may be paid in four installments due approximately February 4, April 7, June 2, and August 4 of the tax year with no discount period allowed. Any delinquent installment is subject to a penalty of 10%.

The City is permitted by the Third Class City Code to levy real estate taxes up to 25 mills on every dollar of assessed valuation for general City purposes. The City's 2009 millage was 7.05 for general purposes, 0.88 for recreation, 4.41 for debt service, 0.4 for landfill debt, 0.5 for Hirko settlement debt, and 0.86 for library.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Inventories

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

Interfund Transactions

As a result of its operations, the City affects a variety of transactions between funds to finance operations. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2009, 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 fixed assets are valued at their estimated fair value on the date donated. The City maintains a capitalization threshold of \$1,000 for all capital assets.

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

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

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Restricted Investments

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

Bond Discounts and Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method which approximates the interest method.

Compensated Absences

The City's vacation policy provides that employees are to take unused vacation within a year following the year it was earned or the vacation time is lost to the employee, except that with the approval of the department head and the business administrator, employees may carry up to 30 days of vacation leave. In accordance with accounting principles generally accepted in the United States of America, the City accrues such benefits as they are earned. Employees, with the exception of police officers, are permitted, under the City's present sick leave policy, to accumulate up to 170 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. Accumulated sick leave is not paid to an employee upon termination, except upon retirement. At that time, police and fire employees receive \$20 and \$25 per day for accumulated sick leave, respectively, while all other employees receive \$10 per day. Employees that have up to twelve years of experience and voluntarily resign receive compensation for accumulated sick leave up to a maximum of 50 days.

Deferred Revenues

Deferred revenues are those where asset recognition criteria have been met, but revenue recognition criteria have not been met. Such amounts are measurable but are not available. Deferred revenue may also result from revenues being collected in advance of the fiscal year to which they apply or in advance of their legal due date.

Restricted Net Assets

Net assets are restricted by laws or regulations of other governments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Pending Changes in Accounting Principles

In June 2008, the GASB issued Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*." This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The provisions of this statement are effective for the City's 2010 financial statements.

In February of 2009, the GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." Statement No. 54 establishes fund balance classifications and governmental fund type definitions to help the consistency of financial reporting. The provisions of this statement are effective for the City's 2010 financial statements.

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

2. REPORTING ENTITY

As required by GASB Statement No. 14, "*The Financial Reporting Entity*," as amended by GASB Statement No. 39, the City has evaluated all related entities for the possible inclusion in the financial reporting entity.

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

Bethlehem Authority

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

CITY OF BETHLEHEM, PENNSYLVANIA

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

Bethlehem Area Public Library

The Bethlehem Area Public Library (Library) provides library services to the City and nearby communities. The Library is governed by thirteen directors, seven of whom are appointed by City Council on the recommendation of the President of City Council. The remaining members are appointed by the governing boards of the municipalities of Fountain Hill, Hanover Township (Northampton County), Lower Saucon Township, Borough of Freemansburg, and Bethlehem Township. The City supports the Library. The City's 2009 appropriation to the Library represented 33% of the Library's General Fund revenue. Title to the assets of the Library rests with the City directly or indirectly through the Board of Directors. Separate financial statements were issued by the Library and can be obtained by contacting the Bethlehem Area Public Library.

Bethlehem Parking Authority

The Bethlehem Parking Authority (Parking Authority) acquires, constructs, and equips parking facilities in the City. The Parking Authority is governed by five board members, all appointed by the Mayor and approved by City Council. The City has guaranteed the debt issuances of the Parking Authority. Also, the City may require the Parking Authority to transfer surpluses to the City. Separate financial statements were issued by the Parking Authority and can be obtained by contacting the Bethlehem Parking Authority.

Bethlehem Redevelopment Authority

The Bethlehem Redevelopment Authority (Redevelopment Authority) provides community development services on behalf of the City. The largest project is among the City, the Redevelopment Authority, and the Department of Housing and Urban Development (HUD) for Section 108 Loan Guarantee Assistance to finance the Bethlehem Works Project. The Redevelopment Authority is governed by five board members who are appointed by the Mayor and approved by City Council. Operations are financed through the appropriations from the City and tax incremental financing from the City, the County of Northampton, and the Bethlehem Area School District. Repayment of the HUD Loan Guarantee Assistance is guaranteed by the City. Separate financial statements were issued by the Redevelopment Authority and can be obtained by contacting the Bethlehem Redevelopment Authority.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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 of Pennsylvania 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 of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- e. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for city funds listed.
- f. Certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured, however, for any amounts above the insured maximum, such certificates of deposit shall be collateralized by a pledge or assignment of assets of the institution, and such collateral may include loans (including interest in pools of loans) secured by first mortgage liens on real property. Certificates of deposit purchased from commercial banks shall be limited to an amount equal to twenty percent of a

CITY OF BETHLEHEM, PENNSYLVANIA

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

- g. 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 and Internal Service 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. Investments of the Library are managed by the board and management of the Library, without restriction as to type of 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 City does not have a deposit policy for custodial credit risk. As of December 31, 2009, the City's book balance was \$5,427,495 and the bank balance was \$8,259,947. Of the bank balance, \$2,049,342 was covered by federal depository insurance and \$6,210,605 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Reconciliation to total cash and cash equivalents:	
<u>Governmental activities:</u>	
Unrestricted	\$ 6,136,179
Unrestricted - net pooled cash position	(4,092,014)
<u>Business-type activities:</u>	
Unrestricted	1,048,847
Restricted	1,630,517
<u>Fiduciary funds:</u>	
Employee benefit trust fund	300,000
Agency fund	403,966
Total cash and cash equivalents	<u>\$ 5,427,495</u>

Net pooled cash position represents the net cash withdrawals in excess of deposits for certain funds from the City's pooled cash accounts.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

B. Investments

The fair value of the investments of the City at December 31, 2009 was as follows:

Investments	Fair Value
Money market funds	\$ 4,757,991
External investment pool	4,503,163
U.S. Government obligations	17,569,844
U.S. Government agency obligations	6,506,131
Municipal bonds	554,691
Corporate bonds and notes	15,523,670
Equities	46,382,236
Equity mutual funds	36,000
Collective investment trust - fixed income	3,252,158
Collective investment trust - equity	12,474,866
Other investments	5,184,530
Total investments	<u>\$ 116,745,280</u>
<u>Reconciliation to total investments</u>	
Governmental activities:	
Unrestricted	\$ 195,147
Business-type activities:	
Unrestricted	86,308
Restricted	13,468,312
Fiduciary funds:	
Employee benefit trust fund	102,805,396
Agency fund	190,117
Total investments	<u>\$ 116,745,280</u>

The City uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for City funds. These funds are invested in the Pennsylvania Local Government Investment Trust (PLGIT), which separately issues audited financial statements that are available to the public. The fair value of the City's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pool.

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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, \$78,098,319 are held by the counterparty's trust department or agent in the City's name, \$8,474,253 are held by the counterparty's trust department or agent not in the name of the city, and the remaining balance of \$30,172,708 is not exposed to custodial credit risk because the investments are not evidenced by securities in book entry or paper form.

Credit risk. The City's money market and fixed income investments had the following level of exposure to credit risk as of December 31, 2009:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 4,757,991	AAA
External investment pool	4,503,163	AAA
U.S. Government agency obligations	6,348,327	AAA
U.S. Government agency obligations	157,804	Unrated
Municipal bonds	212,674	AAA
Municipal bonds	342,017	AA+
Corporate bonds and notes	850,188	AAA
Corporate bonds and notes	315,059	AA+
Corporate bonds and notes	368,717	AA
Corporate bonds and notes	1,111,793	AA-
Corporate bonds and notes	1,396,660	A+
Corporate bonds and notes	3,848,731	A
Corporate bonds and notes	2,641,479	A-
Corporate bonds and notes	2,388,609	BBB+
Corporate bonds and notes	1,671,689	BBB
Corporate bonds and notes	833,413	BBB-
Corporate bonds and notes	70,403	B1
Corporate bonds and notes	26,929	Unrated
Collective investment trust - fixed income	3,252,158	B

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, 2009, the City does not hold more than five percent of the City's investments in any one issuer.

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2009

At December 31, 2009, the City's Employee Benefit Trust Fund was invested in CCA Green, LP Partner's Capital, a limited partnership, in the amount of \$2,198,322. The Partnership's primary investments consist of in-force, non-variable universal life insurance policies insuring the lives of individuals who have life expectancy as of the date of purchase of between three and fifteen years at a price greater than the cash surrender value offered by the life insurance companies, but less than the face amount of or the death benefit payable under such policies. The Partnership uses a probabilistic method to value life insurance policies. The probabilistic method takes into consideration the mortality curve of the insured, rather than assuming mortality will occur at life expectancy. Utilizing the inputs of age, gender, smoking status, and a mortality table, the probabilistic method uses the insured's life expectancy to determine a mortality curve for the insured. Under the probabilistic method, the sum of the estimated discounted cash flows is the estimated fair market value of the policy. The City's share of the partnership is based on the size of the capital contribution. All income and expenses are allocated based on each Limited Partner's capital balance.

C. Restricted Cash, Cash Equivalent, and Investments

Business-Type Activities

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

Component Units

Bethlehem Parking Authority

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

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

A. Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Parking Authority does not have a deposit policy for custodial credit risk. As of December 31, 2009, the Parking Authority's book balance was \$334,084 and the bank balance was \$398,331. Of the bank balance at December 31, 2009,

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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\$258,342 was covered by federal depository insurance and \$139,989 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

B. Investments

The Parking Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for Parking Authority funds. These funds are invested in the Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST), which separately issues audited financial statements that are available to the public.

At December 31, 2009, the Parking Authority's investments in the external investment pool were \$1,210.

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 of Pennsylvania provides external regulatory oversight of the pool.

Credit risk – The Parking Authority does not have a formal policy that would limit its investment choices with regard to credit risk. At December 31, 2009, the external investment pool is rated AAAM by Standard & Poor's.

Interest rate risk – The Parking Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2009, the investments of the Parking Authority have an average weighted maturity of less than one year.

Bethlehem Area Public Library

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

A. Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of December 31, 2009, the Library's book balance was \$215,636 and the bank balance was \$256,961. Of the bank balance, \$250,000 was covered by federal depository insurance and \$6,961 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

B. Investments

The fair value of the investments of the Library at December 31, 2009 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 833,828
Fixed income - U.S. Government agency obligations	42,937
Municipal bonds	82,531
Corporate bonds	242,030
Equities	801,538
Total investments	<u>\$ 2,002,864</u>
 <u>Reconciliation to Balance Sheet:</u>	
Unrestricted investments	\$ 766,233
Restricted investments	1,236,631
Total investments	<u>\$ 2,002,864</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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, 2009:

	Fair Value	Rating
Money market funds	\$ 67,595	AAA
Money market funds	766,233	Aa1
U.S. Government agency obligations	42,937	AAA
Municipal bonds	82,531	AAA
Corporate bonds	30,848	AAA
Corporate bonds	53,234	A+
Corporate bonds	131,073	A
Corporate bonds	26,875	BBB

Concentration of credit risk – The Library places no limit on the amount the Library may invest in any one issuer. At December 31, 2009, 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 Library’s money market funds had a weighted average maturity of less than one year. The following is a list of the Library’s fixed income investments and their related average maturities:

	Fair Value	Investment Maturities		
		2010	2011-2015	2016-2020
U.S. Government agency obligations	\$ 42,937	\$ -	\$ 32,878	\$ 10,059
Municipal bonds	82,531	-	82,531	-
Corporate bonds	242,030	25,679	162,813	53,538
Total	\$ 367,498	\$ 25,679	\$ 278,222	\$ 63,597

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Redevelopment Authority

A. Deposits

Bank of America secures the deposits of public funds under Act No. 72 of the 1971 Session of Pennsylvania General Assembly.

Under this system, it is the Bank's legal responsibility to provide collateral to secure public fund deposits against the claims of any third party. All collateral is pooled and held with the Bank of New York.

B. Investments

These are valued at cost and consist of \$927,248 in United States Government Obligations.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

4. CAPITAL ASSETS

A summary of changes in capital assets follows:

	January 1, 2009	Additions and Transfers In	Disposals and Transfers Out	December 31, 2009
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,750,180	\$ -	\$ -	\$ 6,750,180
Construction in progress	4,436,771	30,746	(158,175)	4,309,342
Total capital assets not being depreciated	11,186,951	30,746	(158,175)	11,059,522
Capital assets being depreciated:				
Buildings and related improvements	22,655,650	1,447,839	-	24,103,489
Improvements other than buildings	38,734,692	1,226,209	-	39,960,901
Furniture, machinery, and equipment	30,067,026	4,530,139	(904,854)	33,692,311
Infrastructure	18,256,951	1,059,072	-	19,316,023
Total capital assets being depreciated	109,714,319	8,263,259	(904,854)	117,072,724
Less accumulated depreciation for:				
Buildings and related improvements	(19,012,995)	(943,857)	-	(19,956,852)
Improvements other than buildings	(19,782,956)	(2,007,567)	-	(21,790,523)
Furniture, machinery, and equipment	(23,078,049)	(2,235,055)	807,433	(24,505,671)
Infrastructure	(4,612,497)	(1,156,457)	-	(5,768,954)
Total accumulated depreciation	(66,486,497)	(6,342,936)	807,433	(72,022,000)
Total capital assets being depreciated, net	43,227,822	1,920,323	(97,421)	45,050,724
Governmental activities capital assets, net	\$ 54,414,773	\$ 1,951,069	\$ (255,596)	\$ 56,110,246

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

	January 1, 2009	Additions and Transfers In	Disposals and Transfers Out	December 31, 2009
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,980,542	\$ -	\$ -	\$ 1,980,542
Construction in progress	3,223,232	292,105	(3,037,183)	478,154
Total capital assets not being depreciated	<u>5,203,774</u>	<u>292,105</u>	<u>(3,037,183)</u>	<u>2,458,696</u>
Capital assets being depreciated:				
Land improvements	841,739	252,453	-	1,094,192
Building and fixtures	13,157,798	191,151	-	13,348,949
Improvements other than buildings	181,125,122	5,470,602	(123,072)	186,472,652
Furniture, machinery, and equipment	4,506,266	146,025	(1,076)	4,651,215
Vehicles	3,777,763	284,674	(118,516)	3,943,921
Office equipment	735,530	2,607	-	738,137
Total capital assets being depreciated	<u>204,144,218</u>	<u>6,347,512</u>	<u>(242,664)</u>	<u>210,249,066</u>
Less accumulated depreciation for:				
Land improvements	(802,142)	(43,588)	-	(845,730)
Building and fixtures	(11,331,665)	(226,209)	-	(11,557,874)
Improvements other than buildings	(83,334,739)	(5,920,814)	-	(89,255,553)
Furniture, machinery, and equipment	(3,921,069)	(239,976)	-	(4,161,045)
Vehicles	(3,008,632)	(220,991)	107,436	(3,122,187)
Office equipment	(684,876)	(24,266)	-	(709,142)
Total accumulated depreciation	<u>(103,083,123)</u>	<u>(6,675,844)</u>	<u>107,436</u>	<u>(109,651,531)</u>
Total capital assets being depreciated, net	<u>101,061,095</u>	<u>(328,332)</u>	<u>(135,228)</u>	<u>100,597,535</u>
Business-type activities capital assets, net	<u><u>\$ 106,264,869</u></u>	<u><u>\$ (36,227)</u></u>	<u><u>\$ (3,172,411)</u></u>	<u><u>\$ 103,056,231</u></u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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Depreciation expense was charged to governmental activities as follows:

General government	\$	6,765
Administration		134,746
Community development		320,594
Parks and public property		1,358,578
Public works		3,155,268
Police		807,450
Fire		538,163
Library		21,372
		<u>21,372</u>
	\$	<u>6,342,936</u>

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

Water Fund	\$	4,782,780
Sewer Fund		1,777,613
Municipal Golf Fund		115,451
		<u>115,451</u>
	\$	<u>6,675,844</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

	January 1, 2009	Additions and Transfers In	Deletions and Transfers Out	December 31, 2009
Parking Authority:				
Capital assets, not being depreciated:				
Land	\$ 477,494	\$ 76,886	\$ -	\$ 554,380
Construction in progress	-	1,669,372	-	1,669,372
Total capital assets, not being depreciated	477,494	1,746,258	-	2,223,752
Capital assets, being depreciated:				
Parking garages	22,690,508	-	-	22,690,508
Furniture and fixtures	519,194	20,000	(20,000)	519,194
Automobiles	266,238	-	-	266,238
Leasehold and parking lot improvements	16,670	5,190	-	21,860
Total capital assets, being depreciated	23,492,610	25,190	(20,000)	23,497,800
Less accumulated depreciation	(8,484,203)	(762,206)	-	(9,246,409)
Total capital assets, being depreciated, net	15,008,407	(737,016)	(20,000)	14,251,391
Total capital assets, net	\$ 15,485,901	\$ 1,009,242	\$ (20,000)	\$ 16,475,143
	January 1, 2009	Additions and Transfers In	Deletions and Transfers Out	December 31, 2009
Library:				
Capital assets, being depreciated:				
Furniture, machinery and equipment	\$ 1,409,288	\$ 22,117	\$ (5,695)	\$ 1,425,710
Less accumulated depreciation	(1,178,672)	(84,536)	5,695	(1,257,513)
Total capital assets being depreciated, net	\$ 230,616	\$ (62,419)	\$ -	\$ 168,197

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

5. INTERFUND RECEIVABLE AND PAYABLES BALANCES

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2009 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental funds:		
General Fund	\$ -	\$ 2,915,232
Other Non-Major Governmental Funds	771,995	65,570
Proprietary funds:		
Water Fund	462,788	-
Sewer Fund	153,529	133,130
Other Non-Major Enterprise Fund	10,570	50,225
Internal Service Fund	179	-
Agency funds	<u>1,765,096</u>	<u>-</u>
Total	<u>\$ 3,164,157</u>	<u>\$ 3,164,157</u>

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

6. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2009 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ 2,232,482	\$ 8,681,004
Debt Service Fund	8,670,345	-
Other Non-Major Governmental Funds	410,660	-
Proprietary funds:		
Water Fund	-	300,000
Sewer Fund	-	<u>2,332,483</u>
Total	<u>\$ 11,313,487</u>	<u>\$ 11,313,487</u>

Transfers are used to (1) reimburse funds for expenses incurred on behalf of other funds, 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, 2009

7. LONG-TERM OBLIGATIONS

Bonds and Notes Payable

A summary of long-term bonds payable of the City at December 31, 2009 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	\$ 78,753,899	\$ 116,048,347	\$ 4,310,000	\$ 442,000	\$ 199,554,246
Amortization of capital appreciation bonds	11,101	1,252,700	-	-	1,263,801
Repayment of debt	(5,271,000)	(5,020,317)	(386,000)	-	(10,677,317)
Outstanding at end of year	<u>\$ 73,494,000</u>	<u>\$ 112,280,730</u>	<u>\$ 3,924,000</u>	<u>\$ 442,000</u>	<u>\$ 190,140,730</u>

	Discretely Presented Component Units	
	Parking Authority	Redevelopment Authority
Outstanding at beginning of year	\$ 11,102,472	\$ 7,298,636
Issuance of new debt	1,774,250	-
Amortization of capital appreciation bonds	3,591	-
Repayment of debt	(454,542)	(555,265)
	12,425,771	6,743,371
Less unamortized deferred costs of refunding	(786,780)	-
Outstanding at end of year	<u>\$ 11,638,991</u>	<u>\$ 6,743,371</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Year	Governmental Activities			Water		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 5,619,000	\$ 3,488,655	\$ 9,107,655	\$ 5,205,513	\$ 3,634,720	\$ 8,840,233
2011	5,828,000	3,279,657	9,107,657	5,407,807	3,467,824	8,875,631
2012	6,058,000	3,050,505	9,108,505	5,621,248	3,289,688	8,910,936
2013	6,296,000	2,811,390	9,107,390	5,899,872	2,886,681	8,786,553
2014	6,556,000	2,550,744	9,106,744	6,190,719	2,638,495	8,829,214
2015-2019	17,128,000	9,243,441	26,371,441	34,524,291	9,766,021	44,290,312
2020-2024	10,714,000	6,144,759	16,858,759	31,181,121	14,976,295	46,157,416
2025-2029	7,510,000	3,417,245	10,927,245	18,250,159	17,192,500	35,442,659
2030-2034	7,785,000	1,380,255	9,165,255	-	-	-
Totals	<u>\$ 73,494,000</u>	<u>\$ 35,366,651</u>	<u>\$ 108,860,651</u>	<u>\$ 112,280,730</u>	<u>\$ 57,852,224</u>	<u>\$ 170,132,954</u>

Year	Sewer			Golf		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 396,000	\$ 146,732	\$ 542,732	\$ 56,000	\$ 17,504	\$ 73,504
2011	411,000	134,133	545,133	58,000	15,286	73,286
2012	421,000	119,993	540,993	60,000	12,988	72,988
2013	437,000	104,874	541,874	63,000	10,612	73,612
2014	457,000	88,683	545,683	66,000	8,118	74,118
2015-2019	1,677,000	188,598	1,865,598	139,000	8,316	147,316
2020-2024	125,000	5,000	130,000	-	-	-
Totals	<u>\$ 3,924,000</u>	<u>\$ 788,013</u>	<u>\$ 4,712,013</u>	<u>\$ 442,000</u>	<u>\$ 72,824</u>	<u>\$ 514,824</u>

Year	Parking Authority			Year	Redevelopment Authority
	Principal	Interest	Total		Principal
2010	\$ 538,965	\$ 525,262	\$ 1,064,227	2010	\$ 536,039
2011	541,895	509,118	1,051,013	2011	545,533
2012	539,081	509,497	1,048,578	2012	1,951,799
2013	563,274	487,652	1,050,926	2013	412,000
2014	586,474	464,846	1,051,320	2014	412,000
2015-2019	3,248,082	1,910,192	5,158,274	Thereafter	2,886,000
2020-2024	2,712,000	1,226,558	3,938,558		
2025-2029	3,121,000	588,333	3,709,333		
2030	575,000	27,312	602,312		
Totals	<u>\$ 12,425,771</u>	<u>\$ 6,248,770</u>	<u>\$ 18,674,541</u>		<u>\$ 6,743,371</u>

Total principal and interest for the primary government due through maturity is \$284,220,442.

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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Long-term obligations payable at December 31, 2009 are as follows:

Governmental Activities:	Current Portion	Balance at December 31, 2009
Bethlehem Authority Federally Taxable Lease Revenue Bonds, Series of 2001, due in annual installments of \$305,000 to \$825,000 through December 1, 2026; interest rates vary from 5.85% to 6.60%.	\$ 305,000	\$ 8,885,000
General Obligation Bonds, Series of 2002, due in annual installments of \$320,000 to \$335,000 through May 1, 2012; interest rates vary from 3.85% to 4.10%.	320,000	975,000
General Obligation Bonds, Series A of 2003, due in annual installments of \$865,000 to \$620,000 through August 1, 2013; interest rates vary from 2.90% to 3.60%.	865,000	3,755,000
General Obligation Bonds, Series B of 2003, due in annual installments of \$210,000 through August 2, 2010; interest rates vary from 2.90% to 3.20%.	210,000	210,000
General Obligation Bonds, Series A of 2004, due in annual installments of \$210,000 to \$360,000 through October 1, 2024; interest rates vary from 2.85% to 4.63%.	210,000	4,135,000
General Obligation Bonds, Series B of 2004, due in annual installments of \$1,275,000 to \$1,735,000 through November 1, 2034; interest rates vary from 4.10% to 5.70%.	1,275,000	30,655,000
Bethlehem Authority Guaranteed Lease Revenue Bonds, Series of 2004, due in annual installments of \$690,000 to \$840,000 through October 1, 2015; interest rates vary from 4.00% to 4.40%.	690,000	4,570,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

	<u>Current Portion</u>	<u>Balance at December 31, 2009</u>
General Obligation Bonds, Series A of 2005, due in annual installments of \$325,000 to \$285,000 through October 2020; interest rates vary from 3.00% to 4.00%.	325,000	2,750,000
General Obligation Bonds, Series B of 2005, due in annual installments of \$510,000 to \$395,000 through October 2016; interest rates vary from 3.00% to 3.80%.	510,000	2,675,000
General Obligation Note, Series of 2006, due in annual installments of \$37,000 to \$47,000 through October 2016; interest rate of 3.92%.	37,000	291,000
General Obligation Note, Series of 2007, due in annual installments of \$713,000 to \$356,000 through August 2022; interest rates fixed at 3.65% through August 2017.	713,000	7,572,000
General Obligation Note, Series of 2008, due in annual installments of \$159,000 to \$682,000 through August 2016; interest rate of 3.96%.	<u>159,000</u>	<u>7,021,000</u>
Total Governmental Activities	<u>\$ 5,619,000</u>	<u>\$ 73,494,000</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, 2009

Business-Type Activities: Water Fund:	<u>Current Portion</u>	<u>Balance at December 31, 2008</u>
Bethlehem Authority Guaranteed Water Revenue Note, Series of 1997, due in annual installments of \$565,000 to \$1,260,000 through August 1, 2027; interest rates are variable. The interest rate at December 31, 2008 was 3.96% (see Note 12).	\$ 565,000	\$ 15,625,000
Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 1998, due in annual installments of \$210,000 to \$380,000 through November 15, 2015; with term portions of \$1,430,000 due in 2018, \$3,165,000 due in 2023, and \$4,100,000 due in 2028; interest rates vary from 4.50% to 5.125%.	210,000	10,440,000
Bethlehem Authority Capital Appreciation Bonds, Series of 1998, due in annual installments of \$425,000 to \$6,050,000 from 2018 to 2028. The interest rates vary from 5.25% to 5.35%.	-	24,420,548
Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2004, due in annual installments of \$3,300,000 to \$5,410,000 through November 15, 2021; interest rates vary from 3.00% to 4.60%.	3,300,000	50,970,000
1998 Pennvest loan payable in monthly installments of \$116,147, including interest at 3.20% through 2018.	1,086,513	10,094,182
General Obligation Note, Series of 2007, due in annual installments of \$44,000 to \$69,000 through August 2022; interest rates fixed at 3.65% through August 2017.	44,000	731,000
Total Water Fund	<u>5,205,513</u>	<u>112,280,730</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

	<u>Current Portion</u>	<u>Balance at December 31, 2009</u>
Sewer Fund:		
General Obligation Bonds, Series of 2002, due in annual installments of \$50,000 through May 2010; interest rates vary from 3.85% to 4.40%.	\$ 50,000	\$ 50,000
General Obligation Bonds, Series of 2004, due in annual installments of \$135,000 to \$140,000 through August 1, 2018; interest rates vary from 2.65% to 4.20%.	135,000	1,745,000
General Obligation Bonds, Series A of 2005, due in annual installments of \$85,000 to \$125,000 through October 2020; interest rates vary from 3.00% to 4.00%.	85,000	1,135,000
General Obligation Note, Series of 2006, due in annual installments of \$126,000 to \$159,000 through October 2016; interest rate 3.92%.	<u>126,000</u>	<u>994,000</u>
Total Sewer Fund	<u>396,000</u>	<u>3,924,000</u>
 Golf Fund:		
General Obligation Note, Series of 2008, due in annual installments of \$56,000 to \$71,000 through August 2016; interest rate of 3.96%.	<u>56,000</u>	<u>442,000</u>
Total Business-Type Activities	<u>\$ 5,657,513</u>	<u>\$ 116,646,730</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Component Units:

Parking Authority:	<u>Current Portion</u>	<u>Balance at December 31, 2009</u>
<p>General Obligation Bond, Series C of 2003, due in annual installments of \$250,000 in October 2010 to \$575,000 in October 2030, interest rates range from 3.00% to 4.75%.</p>	\$ 250,000	\$ 8,025,000
<p>Parking Revenue Note, Series of 2004, due in annual installments of \$210,000 to \$280,000, maturing in August 2020; interest only payments due semiannually through August 2008 at a rate of 3.50%, increasing to 4.41% beginning August 2011; secured by future revenues of the Parking Authority.</p>	210,000	2,590,000
<p>Term Note of 2009, due in annual installments of \$62,000 in December 2011 to \$136,000 in December 2029; interest rates are fixed at 4.8% for a period of sixty months; thereafter, the interest rate is a floating rate equal to 65% of the Wall Street Journal Prime Rate plus 225 basis points, but in no event will the interest rate be more than 6%, secured by real property and future revenues of the Authority.</p>	-	1,700,000
<p>Loan payable, \$500 per month, including interest at 3.74%, through December 2016, unsecured loan.</p>	4,715	36,521
<p>\$250,000 line-of-credit, expires April 30, 2010, annually renewable, interest floats at the financial institution's prime rate but not less than 4% and not more than 9%, secured by the Authority's business assets.</p>	<u>74,250</u>	<u>74,250</u>
<p>Total Parking Authority</p>	<u>\$ 538,965</u>	<u>\$ 12,425,771</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Redevelopment Authority:	<u>Current Portion</u>	<u>Balance at June 30, 2009</u>
HUD 108, Series 2001, due in annual installments of \$411,000 through September 2020; interest rate based on LIBOR.	\$ 411,000	\$ 4,945,000
Note Payable, due in monthly installments through 2012; interest rate is variable.	<u>125,039</u>	<u>1,798,371</u>
Total Redevelopment Authority	<u>\$ 536,039</u>	<u>\$ 6,743,371</u>

During the year ended December 31, 2009, the Parking Authority entered into a promissory note in the amount of \$1,550,000. The interest rate on the note is fixed at 4.8%. Beginning on June 1, 2010, the Parking Authority is to make semi-annual payments of interest only on June 1 and December 1 of each calendar year throughout the term of the loan. One final payment of all outstanding principal, accrued interest, and costs is due on or before December 1, 2012. Within thirty days of receipt by the Parking Authority of any Redevelopment Assistance Capital Program grant proceeds from the Commonwealth of Pennsylvania pursuant to Contract No. ME 300-742 that reimburses the Parking Authority for project costs, the Parking Authority will pay to the lender (of this note) the grant proceeds. At December 31, 2009, no proceeds have been borrowed under this promissory note.

Swap Payments and Associated Debt

As of December 31, 2009, debt service requirements of the variable-rate debt and net interest rate swap payments (Note 12), assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

<u>Year</u>	Variable-Rate Bonds		Interest Rate	<u>Total</u>
	Principal	Interest	Swaps, Net	
2010	\$ 180,000	\$ 55,496	\$ 180,234	\$ 415,730
2011	185,000	53,480	173,687	412,167
2012	4,590,000	51,408	166,958	4,808,366
Totals	\$ 4,955,000	\$ 160,384	\$ 520,879	\$ 5,636,263

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Other Changes in Long-Term Debt

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

	Balance January 1, 2009	Additions	Reductions	Balance December 31, 2009
Governmental activities:				
Accrued vacation and other compensated absences	\$ 3,608,032	\$ 196,998	\$ -	\$ 3,805,030
Capital leases	209,939	-	(166,878)	43,061
	<u>\$ 3,817,971</u>	<u>\$ 196,998</u>	<u>\$ (166,878)</u>	<u>\$ 3,848,091</u>
Business-type activities:				
Accrued vacation and other compensated absences	\$ 636,203	\$ 3,153	\$ -	\$ 639,356
Capital leases	112,443	-	(49,369)	63,074
	<u>\$ 748,646</u>	<u>\$ 3,153</u>	<u>\$ (49,369)</u>	<u>\$ 702,430</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, 2009, the net book value of the equipment and vehicles held under capital leases and included in capital assets was \$32,516 for governmental activities and \$64,215 for business-type activities.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

As of December 31, 2009, future minimum payments were as follows:

Year	Governmental Activities	Business-Type Activities
2010	\$ 44,556	\$ 30,893
2011	-	32,979
2012	-	2,621
Total commitment under capital leases	44,556	66,493
Less amount representing interest	1,495	3,419
Present value of future minimum lease payments	43,061	63,074
Less current portion	43,061	28,551
Long-term portion	\$ -	\$ 34,523

8. PENSION PLANS

PLAN DESCRIPTIONS

The City has three single-employer defined benefit plans covering Police, Firemen, and certain non-uniformed employees (Officers' and Employees' Plan). The plans provide for retirement, disability, and death benefits to plan members and their beneficiaries. Cost of living adjustments are provided at the discretion of the Police, Firemen, and Officers' and Employees' Retirement Boards. These plans do not issue separate reports. The City also participates in a pension plan administered by the Pennsylvania Municipal Retirement System (PMRS) covering the remainder, and larger group, of non-uniformed employees, and all full-time Library and Parking Authority Employees. PMRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR) which may be obtained by writing to Pennsylvania Municipal Retirement System, P. O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968. The combining information for the plans is as follows:

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

	Firemen Pension Fund	Police Pension Fund	Officers' and Employees' Pension Fund	Employee Benefit Trust Fund Total
Assets				
Cash and cash equivalents	\$ 300,000	\$ -	\$ -	\$ 300,000
Interest and dividends receivable	145,189	189,921	21,884	356,994
Contribution receivable	566,749	1,292,738	354,477	2,213,964
Investments	41,955,903	54,676,785	6,172,708	102,805,396
	<u>\$ 42,967,841</u>	<u>\$ 56,159,444</u>	<u>\$ 6,549,069</u>	<u>\$ 105,676,354</u>
Net Assets				
Reserved for employees' retirement benefits	<u>\$ 42,967,841</u>	<u>\$ 56,159,444</u>	<u>\$ 6,549,069</u>	<u>\$ 105,676,354</u>
Total Net Assets	<u>\$ 42,967,841</u>	<u>\$ 56,159,444</u>	<u>\$ 6,549,069</u>	<u>\$ 105,676,354</u>
Additions:				
Employee contributions	\$ 569,129	\$ 759,521	\$ 10,839	\$ 1,339,489
Employer contributions	1,174,242	1,869,712	622,663	3,666,617
Investment income	1,229,519	1,648,886	201,879	3,080,284
Realized and unrealized gains, net	5,181,005	6,730,138	755,180	12,666,323
Total additions	<u>8,153,895</u>	<u>11,008,257</u>	<u>1,590,561</u>	<u>20,752,713</u>
Deductions:				
Benefits paid	2,745,629	4,416,511	1,134,571	8,296,711
Administrative costs	233,017	305,863	36,134	575,014
Total deductions	<u>2,978,646</u>	<u>4,722,374</u>	<u>1,170,705</u>	<u>8,871,725</u>
Change in Net Assets	5,175,249	6,285,883	419,856	11,880,988
Net Assets:				
Beginning of year	37,792,592	49,873,561	6,129,213	93,795,366
End of year	<u>\$ 42,967,841</u>	<u>\$ 56,159,444</u>	<u>\$ 6,549,069</u>	<u>\$ 105,676,354</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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

Benefit provisions and their amendments are authorized by the separate Pension Boards for the Police, Firemen, and Officers' and Employees' plans and by Pennsylvania State Act 15 for the PMRS plan. The following table provides information concerning types of covered employees and benefit provision for each of the Plans as of their latest actuarial valuation date, January 1, 2009:

	Police	Firemen	Officers' and Employees'	PMRS
	All Full-time Members of the Police Force	All Full-time Members of the Fire Department	Closed 01/01/64	All Full-time Employees Not Previously Covered
<u>Covered Employees</u>				
Active plan members	155	114	4	449
Numbers of retirees and beneficiaries receiving benefits	153	113	62	169
Terminated employees entitled to deferred benefits	-	-	-	8

Contributions

Pennsylvania Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act of the Commonwealth of Pennsylvania (as amended) (Act 205) requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the plans' biennial actuarial valuation. According to Act 205, actuarial valuations may be made biennially and the most recent valuation for all of the City's plans was completed as of January 1, 2009. The MMO includes the normal cost, estimated administrative expenses and an amortization of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10 percent of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds that must be used for pension funding. Any financial requirements established by the MMO which exceeds state and member contributions must be funded by the employer.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Police and firemen are required to contribute 7% and 8% of covered payroll, respectively, plus \$1 per month to their respective pension plans. The Officers' and Employees' plan requires contributions of 3% of covered payroll for single coverage, 3½% for joint coverage, and 5% for dual coverage from participants. These contributions are governed by the Plans' governing ordinances and collective bargaining agreements. 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.

Annual Pension Cost and Net Pension (Asset) Obligation – For the year ended December 31, 2009, the City made \$670,321 of the \$1,869,712 annual required contribution for the City's Police Defined Benefit Pension Plan, \$648,321 of the \$1,174,242 annual required contribution for the City's Firemen Defined Benefit Pension Plan, and \$300,000 of the \$622,663 annual required contribution for the City's Officers' and Employees' Defined Benefit Pension Plan. The unpaid portion for the Police, Firemen, and O&E Plan plus accrued interest of \$1,292,738, \$566,749, and \$354,477, respectively, is recorded as a receivable in each Plan's Trust Fund and a payable in the General Fund as of December 31, 2009. The City paid these amounts to the three Plans in April 2010. The City's net pension (asset) obligation for the City's Police, Firemen, and Officers' and Employees' Defined Benefit Pension Plans at December 31, 2009 is not significant.

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

The January 1, 2009 actuarial valuation utilized the entry age normal cost method. The actuarial assumptions included (a) investment rate of return of 7.5% for the three City Plans, and (b) projected salary increases of 5% per year, including an inflation component of 4%, for the City Plans. The actuarial value of assets was based on the investment gain or loss being recognized over a five-year period. In no event is the actuarial value of assets allowed to be greater than 130% or less than 70% of market value. The Police and Firemen unfunded actuarial accrued liabilities (UAAL) are being amortized over 19 and 17 years, respectively, utilizing the level dollar closed method and the Officers' and Employees' UAAL is being amortized over 2 years utilizing the level dollar closed method.

The PMRS plan requires contributions of 7 ½% from plan participants. The January 1, 2009 actuarial valuation utilized the entry age normal cost method. The actuarial assumptions included (a) investment rate of return of 6.0%, and (b) projected salary increases of 4.5%. The PMRS unfunded actuarial accrued liability is being amortized over 11 years, utilizing the annual funding adjustment equal to 10% of negative UAAL. Contributions to the PMRS plan totaled \$3,349,980 in 2009. This contribution represents 100% of the annual required contribution (MMO) for 2009.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Funded Status and Schedule of Funding Progress (in thousands):

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
Police:						
1/1/2009	\$ 64,399	\$ 74,424	\$ (10,025)	87%	\$ 10,058	-100%
Firemen:						
1/1/2009	\$ 48,780	\$ 55,305	\$ (6,525)	88%	\$ 6,544	-100%
Officers and Employees:						
1/1/2009	\$ 7,943	\$ 8,984	\$ (1,041)	88%	\$ 241	-432%
PMRS:						
1/1/2009	\$ 77,370	\$ 97,712	\$ (20,342)	79%	\$ 23,164	-88%

Investments That Represent Five Percent or More of Plan Net Assets

The City does have a formal policy that limits the amount the City may invest in any one issuer to five percent for the Plan. At December 31, 2009, the City does not hold more than five percent of the Plan's investments in any one issuer.

Subsequent to year end, the Police, Firemen and Officers', and Employees' Plan experienced significant declines in market values due to changing market conditions. The decline through June 30, 2009 was \$1,635,397, \$1,267,637, and \$181,801, respectively. The City is aware of the decline and will continue to closely monitor changes in market value.

9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Descriptions

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Police:

Article XI of the Collective Bargaining Agreement between the City and the Fraternal Order of Police, Star Lodge #20, effective January 1, 2007, 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.

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 \$320 in 2009 and will increase to \$340 in 2010. 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. 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.

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, 2007, establishes retirees' eligibility for post-retirement medical benefits. Article VII Section D. of the personnel manual establishes retirees' eligibility for post-retirement life-insurance benefits.

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

Benefits: The City will provide medical and prescription drug coverage for the retiree and spouse until Medicare eligibility. The City's maximum monthly contribution for health insurance coverage for each retiree is \$340 in 2009 and 2010. 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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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. 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.

Non-uniformed union and non-union employees:

Article IX of the Collective Bargaining Agreement between the City and the Service Employees International Union, Local 473-Chapter 439B, AFL-CIO, effective January 1, 2007, 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.

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 \$1,500 of post-retirement life insurance coverage. 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.

Funding Policy and Annual OPEB Costs

The City's contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2009, the City contributed \$1,039,770 to the OPEB plan.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Police:

Police would pay any additional premiums above the City's contribution of \$320. For the year ended December 31, 2009, police retirees contributed \$86,230 toward the cost of their plans.

Firefighters:

Firefighters would pay any additional premiums above the City's contribution of \$340. For the year ended December 31, 2009, firefighter retirees contributed \$42,762 toward the cost of their plans.

Non-uniformed union and non-union employees:

Non-uniformed union and non-union retirees would pay any additional premiums above the City's contribution of \$280. For the year ended December 31, 2009, non-uniformed union and non-union retirees contributed \$80,493 toward the cost of their plans.

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

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

Actuarial Methods and Assumptions

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2008
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.5%
Salary increases	5.0%
Medical inflation:	
2008	8.5%
2009	8.0%
2010	7.5%
2011	7.0%
2012	6.5%
2013	6.0%
2014	5.5%
2015 and later	5.0%
Amortization period	30 year open period

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB costs and net OPEB obligations to the Plan for the year ended December 31, 2009 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 1,299,002	\$ 246,917	\$ 1,545,919
Interest on net OPEB obligation	35,726	7,291	43,017
Adjustment to the ARC	(48,742)	(9,946)	(58,688)
Annual OPEB cost	1,285,986	244,262	1,530,248
Contribution made	(873,554)	(166,216)	(1,039,770)
Change in Net OPEB Obligation	412,432	78,046	490,478
Net OPEB Obligation, beginning	1,063,584	221,545	1,285,129
Net OPEB Obligation, ending	\$ 1,476,016	\$ 299,591	\$ 1,775,607

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
2009	\$ 1,530,248	67.9%	\$ 1,775,607
2008	1,545,919	16.9%	1,285,129
2007	N/A	N/A	N/A

N/A - Not Applicable; 2008 is implementation year for GASB Statement No. 45.

Funded Status and Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2008	\$ -	\$ 14,256,169	\$ 14,256,169	0.00%	\$ 32,868,661	43.37%

Note: Valuation as of 1/1/2008 represents the initial valuation for the Plan as required under GASB Statement No. 45.

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 \$201,086 to the plan during 2009. 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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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 2009. Settlement amounts have not exceeded insurance coverages for the current year or three prior years.

Construction

The Parking Authority has entered into a construction and a professional service contract in the amount of \$1,178,900 as of December 31, 2009. At December 31, 2009, the Parking Authority had not paid any costs under these contracts; however, \$25,480 is included in construction and accounts payable.

Line of Credit

Beginning on September 8, 2009, the Library established a line of credit in the amount of \$200,000. The interest rate established by the lender is equal to the prime rate plus .75%, except that the interest rate will be no less than 5.00%. The line of credit has a one-year term from the date of issuance. At December, 31, 2009, there were no amounts borrowed under the line of credit.

Internal Service Fund

Accounting principles generally accepted in the United States of America state that a deficit in an internal service fund be charged back to other funds, unless needed adjustments are expected over a reasonable period of time. As of December 31, 2009, the medical liability was approximately \$3.8 million. In July 2010, the City paid approximately \$640,000 toward the 2009 liability. The City's intention is to pay the remaining balance in 2011, when the true-up funds from the City's host fee are received, in the amount of approximately \$5,000,000. Additionally, during 2010, the City has begun cost saving measures, by not filling vacant and non-essential positions. If the City did not make the expected adjustments over a reasonable period of time, additional expenditures/expenses in the amount of \$2.5 million, \$738,000, \$231,000 and \$54,000 in the General Fund, Water Fund, Sewer Fund, and Golf Fund, respectively, would have been reported for the year ended December 31, 2009.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Violations of Finance-Related Legal and Contractual Provisions

During the year ended December 31, 2009, the City did not comply with three City Ordinances passed by City Council. The Ordinances require communication and approval from City Council before certain transfers are made within the City's accounts. This communication and approval did not occur before certain transfers were made during the year. The City agrees and has been complying with Ordinance number 2008-24.

During the year ended December 31, 2009, the City's pooled cash accounts included restricted and unrestricted funds. Therefore, the City could be using restricted money for expenditures in the General Fund. The City intends to review the composition of the pooled cash account and make a determination as to which accounts and funds should be in the pooled cash account.

During the year ended December 31, 2009, the City did not comply with certain regulations related to Act 78 and Act 56 for landline and wireless 911 revenues. The City used Act 78 money to pay for unallowable expenses. The City also used Act 56 money to pay for Act 78 expenditures. The City intends to return the excess costs, in the amount of \$670,245, to the Act 78 account from the General Fund and excess costs, in the amount of \$2,598,461, to the Act 56 account from the Act 78 account.

During the year ended December 31, 2009, the City advanced itself earned income tax receipts that were being held on behalf of other governments. This practice has occurred since 1974. In times of tight cash flow at the end of the year, the City advances itself Earned Income Tax funds based on the fact that other tax collectors have collected funds due the City. However, those tax collectors do not remit the funds to the City until the following year. The City repays the advanced funds when the other tax collectors remit payment.

12. DERIVATIVE FINANCIAL INSTRUMENT

Objective of the Interest Rate Swap

As a means to manage interest rate exposure, the City entered into an interest rate swap in connection with its Bethlehem Authority, Guaranteed Water Revenue Note, Series of 1997 (see Note 7). The intention of the swap was to effectively change the City's variable interest rate on this long-term debt to a synthetic fixed rate of 3.9 percent.

Terms

The interest rate swap agreement was effective January 1, 2003. The long-term debt and related swap agreement mature on August 1, 2012 and the swap's notional amount of \$5,595,000 matches the principal amount of the hedged debt. Beginning in 2003, the notional amount of the swap and the principal amount of the debt decline at an equal rate. Under the

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

swap, the City pays the counterparty a fixed payment of 3.9 percent and receives a variable payment computed as Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA), one week (weighted weekly average). Conversely, the variable rate debt is based on a weekly remarketed rate plus .8%.

Fair Value

The swap had a negative fair value of \$207,000 as of December 31, 2009. Because the coupon on the City's variable-rate notes adjusts to changing interest rates, the notes do not have a corresponding fair value increase. The fair value was calculated by the financial advisor to the Bethlehem Authority and reflects the fact that taxable interest rates were lower at December 31, 2009.

Credit Risk

As of December 31, 2009, the swap had a negative fair value. However, should interest rates increase and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative's fair value. The Counterparty, Lehman Brothers Special Financing, Inc., has filed for bankruptcy protection in the United States Bankruptcy Court.

Basis Risk

The swap exposes the City to basis risk should the relationship between the weekly remarketed rate (which has to be paid by the Bethlehem Authority) and SIFMA (which is the amount paid by the Counterparty to the Bethlehem Authority) diverge, changing the synthetic rate on the bonds. The effect of this basis differential has generally been an increase in interest costs. As of December 31, 2009, the weekly remarketed rate was .32%, whereas SIFMA was .26258%.

Liquidity Facility Risk

During the past several years, obtaining liquidity facilities has become increasingly difficult and expensive. Many issuers are unable to access this market at a price that is as economical as it once was. Indeed, the Bethlehem Authority has experienced a significant increase in the "gross up rate" of the financing due in large part to costs associated with liquidity and credit enhancement. This has resulted in a significant increase in the synthetic fixed rate on the loan.

Termination Risk

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The City or the counterparty may terminate the swap if the other party fails to perform under the terms

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

of the contract. If the swap is terminated, the variable-rate loan would no longer carry a synthetic fixed interest rate and the City would be exposed to interest rate risk. Also, if at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. If at the time of termination the swap has a positive fair value but the counterparty is unable for any reason, including its insolvency, to pay such amount, the City might not receive amounts due it under the contract.

13. CREDIT RISK AND MARKET RISK

The City uses its authority to levy certain general purpose taxes. Major taxing revenue sources include real estate, earned income, mercantile, and business privilege taxes. These taxes account for approximately 92% of the total taxes collected by the City in 2009. Although the City has a diversified taxing base, its citizens' ability to honor their taxing obligations is substantially dependent upon the general economic condition of the region.

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

14. RESTATEMENT

The beginning fund balance of the General Fund and the beginning net assets of the Governmental Activities have been reduced by \$514,250 to account for a misallocation of costs under the City's 911 fund. Had the correction been made during the year ended December 31, 2008, the change in fund balance of the General Fund would have been reduced by \$514,250, from (\$4,100,523) to (\$4,614,773), and the change in net assets of the Governmental Activities would have been reduced by \$514,250, from (\$3,819,004) to (\$4,333,254).

15. SUBSEQUENT EVENTS

In January 2010, the City issued General Obligation Note, Series A of 2010, in the amount of \$8,100,000. The Series A of 2010 Note bears interest at a rate of 3.92% per annum and is due in full on or before December 15, 2014.

In January 2010, the City issued General Obligation Note, Series B of 2010, in the amount of \$2,600,000. The Series B of 2010 Note bears interest at a rate of 3.92% per annum and is due in full on or before December 15, 2012.

In April 2010, the City entered into an agreement to issue General Obligation Bonds, Series of 2010, in the amount of \$11,875,000. The proceeds from the sale of the Bonds will be used

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 .

for and toward: (1) the current refunding of the City's General Obligation Bonds, Series of 2002, General Obligation Bonds, Series A of 2003, General Obligation Bonds, Series of 2004, General Obligation Bonds, Series A of 2004, and General Obligation Bonds, Series of 2006; and (2) paying the costs of issuing the bonds. The City's current refunding decreased total debt service payments by \$364,280 through the year 2024 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$345,812.

In May 2010, the Bethlehem Authority issued Guaranteed Water Revenue Bonds, Series of 2010, in the amount of \$11,000,000. The 2010 Bonds, together with interest to be earned on the proceeds thereof, are being used to provide funds for and towards: (1) the current refunding of a portion of the Authority's Guaranteed Water Revenue Bonds, Series of 1998; and (2) payment of the issuance expenses on the bonds. The Bethlehem Authority's current refunding decreased total debt service payments by \$1,002,753 through the year 2028 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$805,110.

16. NEGATIVE FUND BALANCE

As a result of declining revenues due to the national economic recession, deferred revenues from unpaid invoices, and State budget cuts, the City has been implementing for several months, a hiring freeze and making cuts to the 2010 budget. Moreover, the City's administration is exploring other avenues of reducing costs and increasing revenues.

**Required Supplementary
Information**

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 32,350,000	\$ 32,350,000	\$ 30,738,550	\$ (1,611,450)
Licenses and permits	2,699,000	2,699,000	1,875,709	(823,291)
Intergovernmental	8,737,758	9,259,056	7,041,223	(2,217,833)
Departmental earnings	6,250,522	6,250,522	5,376,642	(873,880)
911 communication fees	4,418,000	4,418,000	3,076,538	(1,341,462)
Fines and forfeitures	590,000	590,000	531,092	(58,908)
Investment income	157,000	157,000	3,094	(153,906)
Municipal recreation	490,000	490,000	457,700	(32,300)
Host fees	1,295,000	1,295,000	1,630,643	335,643
Other operating revenues	1,287,000	1,287,000	628,230	(658,770)
Miscellaneous	5,091,720	5,102,467	6,356,052	1,253,585
Total revenues	63,366,000	63,898,045	57,715,473	(6,182,572)
Expenditures:				
Current:				
General government	866,804	866,804	834,904	31,900
Administration	2,310,327	2,310,327	2,152,568	157,759
Community development	5,708,569	6,131,712	5,045,608	1,086,104
Parks and public property	3,792,871	3,797,671	3,660,436	137,235
Public works	5,764,017	5,782,374	5,087,879	694,495
Police	16,070,415	16,485,070	14,406,355	2,078,715
Fire	9,459,556	9,767,941	9,586,923	181,018
General	16,500,245	15,862,950	11,997,290	3,865,660
Civic	108,420	108,420	101,790	6,630
Library	1,194,000	1,194,000	1,194,000	-
Debt service:				
Principal	4,745,000	4,745,000	4,745,000	-
Interest	2,619,734	2,619,734	2,619,631	103
Total expenditures	69,139,958	69,672,003	61,432,384	8,239,619
Excess (Deficiency) of Revenues Over Expenditures	(5,773,958)	(5,773,958)	(3,716,911)	2,057,047
Other Financing Sources (Uses):				
Transfers in	6,253,000	6,253,000	5,645,815	(607,185)
Transfers out	(479,042)	(479,042)	(479,042)	-
Total other financing sources (uses)	5,773,958	5,773,958	5,166,773	(607,185)
Net Change in Fund Balance	\$ -	\$ -	\$ 1,449,862	\$ 1,449,862

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2009

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

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

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Budgetary basis	\$ 63,361,288	\$ 61,911,426
Net agency fund borrowings	(3,194,813)	-
Accrual adjustments:		
Receivables:		
Beginning of year	(7,382,139)	-
End of year	10,920,514	-
Accrued liabilities:		
Beginning of year	-	(2,711,518)
End of year	-	7,728,532
Deferred revenues:		
Beginning of year	4,013,084	-
End of year	(5,612,139)	-
Agency fund cash:		
Beginning of year	(482,325)	-
Reclassifications	(3,305,542)	(3,305,542)
GAAP basis	<u>\$ 58,317,928</u>	<u>\$ 63,622,898</u>

CITY OF BETHLEHEM, PENNSYLVANIA

SCHEDULES OF FUNDING PROGRESS

(in thousands)

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
Police:							
	1/1/2005	\$ 57,999	\$ 64,741	\$ (6,742)	90%	\$ 7,772	-87%
	1/1/2007	64,234	67,123	(2,889)	96%	8,604	-34%
	1/1/2009	64,399	74,424	(10,025)	87%	10,058	-100%
Firemen:							
	1/1/2005	43,034	44,704	(1,670)	96%	5,495	-30%
	1/1/2007	48,461	49,969	(1,508)	97%	5,994	-25%
	1/1/2009	48,780	55,305	(6,525)	88%	6,544	-100%
Officers and Employees:							
	1/1/2005	9,455	10,516	(1,061)	90%	418	-254%
	1/1/2007	9,001	10,178	(1,177)	88%	321	-367%
	1/1/2009	7,943	8,984	(1,041)	88%	241	-432%
PMRS:							
	1/1/2005	59,110	77,295 *	(18,185)	76%	18,338	-99%
	1/1/2007	64,898	85,564 **	(20,666)	76%	20,225	-102%
	1/1/2009	77,370	97,712 ***	(20,342)	79%	23,164	-88%

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

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

* - Significant plan changes for the 1/1/2005 valuation resulted in increases to the actuarially accrued liability (1) benefit plan changes for \$9.9 million, (2) actuarial assumption changes for \$2.3 million, and (3) actuarial loss/gain for \$2.9 million.

** - Significant plan changes for the 1/1/2007 valuation resulted in increases to the AAL of \$4.2 million.

*** - Significant plan changes for the 1/1/2009 valuation resulted in increases to the AAL of \$2.1 million.

See accompanying note to required supplementary information.

CITY OF BETHLEHEM, PENNSYLVANIA

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTING ENTITIES

(in thousands)

Calendar Year	Police		Firemen		Officers and Employees		PMRS	
	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed
2004	\$ 631	100%+	\$ 522	100%+	\$ -	N/A	\$ 432	100%+
2005	-	N/A	-	N/A	-	N/A	887	100%
2006	1,572	100%+	987	100%+	381	100%+	916	100%+
2007	1,692	100%	1,045	100%	381	100%+	3,168	100%+
2008	1,713	100%	1,019	100%	379	98%	3,264	100%+
2009	1,870	100%	1,174	100%	623	100%	3,350	100%

Note: Contributions include state pension aid.

See accompanying note to required supplementary information.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2009

The information presented in the required supplementary schedules of trend information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest available actuarial valuation follows:

	<u>Police</u>	<u>Firemen</u>	<u>Officers and Employees</u>	<u>PMRS</u>
Actuarial valuation date	1/1/2009	1/1/2009	1/1/2009	1/1/2009
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed	Level Dollar Adjustment Equal to 10% of Negative Unfunded AAL
Amortization period	19 years	17 years	2 years	11 years
Asset valuation method	5 year smoothed value with a maximum of 130% market value	5 year smoothed value with a maximum of 130% market value	5 year smoothed value with a maximum of 130% market value	Market Value as determined by Trustee
Actuarial assumptions:				
Investment rate of return	7.5%	7.5%	7.5%	6.0%
Projected salary increases	5.0%	5.0%	5.0%	4.5%

Supplementary Information

CITY OF BETHLEHEM, PENNSYLVANIA

COMBINING BALANCE SHEET - OTHER NON-MAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2009

	Non-Utility Capital Improvements Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
Assets				
Cash and cash equivalents	\$ 4,918,444	\$ 765,647	\$ 103,865	\$ 5,787,956
Investments	58,295	-	134,040	192,335
Receivables:				
Loans	-	2,992,566	-	2,992,566
Other	10,804	-	-	10,804
Due from other funds	770,565	1,430	-	771,995
Due from other governments	486,380	189,095	72,180	747,655
Total Assets	\$ 6,244,488	\$ 3,948,738	\$ 310,085	\$ 10,503,311
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and other accrued expenses	\$ 2,153,559	\$ 146,455	\$ 48,134	\$ 2,348,148
Accrued payroll	-	15,381	11,549	26,930
Accrued vacation and other compensated absences	-	28,389	-	28,389
Due to other funds	65,570	-	-	65,570
Deferred revenues	465,352	3,758,513	-	4,223,865
Total Liabilities	2,684,481	3,948,738	59,683	6,692,902
Fund Balance:				
Reserved for:				
Highways and streets	-	-	250,402	250,402
Capital projects	3,560,007	-	-	3,560,007
Total Fund Balance	3,560,007	-	250,402	3,810,409
Total Liabilities and Fund Balance	\$ 6,244,488	\$ 3,948,738	\$ 310,085	\$ 10,503,311

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2009

	Non-Utility Capital Improvements Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
Revenues:				
Intergovernmental revenues	\$ 1,368,372	\$ 2,527,918	\$ 1,458,480	\$ 5,354,770
Investment income	1,749	122,619	1,159	125,527
Other	50,524	114,874	-	165,398
Total revenues	1,420,645	2,765,411	1,459,639	5,645,695
Expenditures:				
Current:				
Public works	-	-	1,468,586	1,468,586
Program expenditures	-	2,765,411	-	2,765,411
Capital outlays	5,909,671	-	-	5,909,671
Debt service - interest	173,216	-	-	173,216
Total expenditures	6,082,887	2,765,411	1,468,586	10,316,884
Excess (Deficiency) of Revenues Over Expenditures	(4,662,242)	-	(8,947)	(4,671,189)
Other Financing Sources:				
Transfers in	410,660	-	-	410,660
Net Change in Fund Balance	(4,251,582)	-	(8,947)	(4,260,529)
Fund Balance:				
Beginning of year	7,811,589	-	259,349	8,070,938
End of year	<u>\$ 3,560,007</u>	<u>\$ -</u>	<u>\$ 250,402</u>	<u>\$ 3,810,409</u>