

# **City of Bethlehem, Pennsylvania**

## Financial Statements and Supplementary Information

Year Ended December 31, 2012 with  
Independent Auditor's Report

# CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2012

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YEAR ENDED DECEMBER 31, 2012

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## Independent Auditor's Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bethlehem, Pennsylvania (City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Bethlehem Redevelopment Authority, which represent 31 percent, 169 percent, and 56 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those 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 solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Bethlehem Area Public Library and the Bethlehem Parking Authority were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers

internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information listed in the table of contents on pages i through xiv and 70 through 75 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Maher Duessel*

Harrisburg, Pennsylvania  
September 11, 2013

# 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, 2012 and 2011. The City's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow.

### Financial Highlights

The City's total net position increased by \$3,185,091 in 2012 and increased by \$4,995,533 in 2011.

In the City's governmental activities, net position increased by \$1,736,097 in 2012 and increased by \$5,506,048 in 2011. In 2012, the increase in net position is the result of increases in revenue from Act 56 funds of \$1,374,878 and transfers from enterprise funds of \$825,001. In 2011, the increase in net position is the result of increases in revenue from taxes of \$4,562,597 and intergovernmental revenues of \$6,910,436.

In the City's business-type activities, net position increased by \$1,448,994 in 2012 and decreased by \$510,515 in 2011. In 2012, the increase is the result of an increase in charges for services of \$2,607,816. On the expenditure side, there was an increase in transfers out of \$825,001. In 2011, the decrease is the result of a decrease in charges for services of \$1,263,785. On the expenditure side, there was an increase in service charges of \$1,984,141 while interest expense and transfers out reflect decreases of \$1,611,113 and \$1,417,356, respectively.

### Overview of the Financial Statements

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

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

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

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

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

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

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

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

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

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

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

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

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues,

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

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

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

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

The basic proprietary fund financial statements can be found on pages 9-12 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.

### **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 18-69 of this report.

### **Other Information**

Required supplementary information can be found on pages 70-75 of this report. The combining statements referred to earlier in connection with governmental fund types are presented immediately following the required supplementary information section. Combining schedules can be found on pages 76-77 of this report.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

### Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities exceeded assets at the close of the end of December 31, 2012 by \$19,215,703 and 2011 by \$22,400,794.

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

### City's Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current assets	\$ 19,861,884	\$ 21,349,803	\$ 9,599,749	\$ 5,719,125	\$ 29,461,633	\$ 27,068,928
Capital assets	61,297,947	57,907,240	99,577,276	98,409,604	160,875,223	156,316,844
Other assets	4,711,093	5,274,289	16,292,768	16,808,069	21,003,861	22,082,358
<b>Total assets</b>	<b>\$ 85,870,924</b>	<b>\$ 84,531,332</b>	<b>\$ 125,469,793</b>	<b>\$ 120,936,798</b>	<b>\$ 211,340,717</b>	<b>\$ 205,468,130</b>
Current liabilities	\$ 20,337,240	\$ 19,801,277	\$ 11,492,057	\$ 11,388,312	\$ 31,829,297	\$ 31,189,589
Noncurrent liabilities	91,459,638	92,392,106	107,267,485	104,287,229	198,727,123	196,679,335
<b>Total liabilities</b>	<b>\$ 111,796,878</b>	<b>\$ 112,193,383</b>	<b>\$ 118,759,542</b>	<b>\$ 115,675,541</b>	<b>\$ 230,556,420</b>	<b>\$ 227,868,924</b>
Net position:						
Net investment						
in capital assets	\$ 27,517,063	\$ 29,407,634	\$ 5,956,401	\$ 2,844,816	\$ 33,473,464	\$ 32,252,450
Restricted	719,419	548,734	-	-	719,419	548,734
Unrestricted	(54,162,436)	(57,618,419)	753,850	2,416,441	(53,408,586)	(55,201,978)
<b>Total net position (deficit)</b>	<b>\$ (25,925,954)</b>	<b>\$ (27,662,051)</b>	<b>\$ 6,710,251</b>	<b>\$ 5,261,257</b>	<b>\$ (19,215,703)</b>	<b>\$ (22,400,794)</b>

Capital assets in Governmental Activities increased approximately \$3.4 million. This was due to various capital projects. These included \$1.3 million towards Phase II of the Greenway, \$971,000 for 9-1-1 console replacement, and \$606,000 towards converting a firehouse into a new EMS facility.

Current assets in Business-type Activities increased approximately \$3.9 million. This was due to the borrowing of new money for Sewer capital projects at the end of 2012 for \$4.1 million.

Noncurrent liabilities in Business-type Activities increased approximately \$3.0 million. This was due to debt issued of \$10.5 million compared to debt principal payments of \$8.7 million in 2012.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

### City's Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 11,640,753	\$ 11,949,526	\$ 33,391,203	\$ 30,783,387	\$ 45,031,956	\$ 42,732,913
Operating grants and contributions	9,923,519	9,878,606	-	-	9,923,519	9,878,606
Capital grants	2,291,359	4,326,673	300,779	1,712,549	2,592,138	6,039,222
General revenues:						
Taxes	32,534,333	32,475,537	-	-	32,534,333	32,475,537
Investment earnings	68,533	114,897	440,594	481,026	509,127	595,923
Unrestricted grants	13,440,010	15,446,948	-	-	13,440,010	15,446,948
<b>Total revenues</b>	<b>69,898,507</b>	<b>74,192,187</b>	<b>34,132,576</b>	<b>32,976,962</b>	<b>104,031,083</b>	<b>107,169,149</b>
Expenses:						
General government	753,288	722,426	-	-	753,288	722,426
Administrative	1,125,834	1,131,440	-	-	1,125,834	1,131,440
Community development	5,295,376	5,438,536	-	-	5,295,376	5,438,536
Parks and public property	4,357,727	4,317,501	-	-	4,357,727	4,317,501
Public works	7,591,719	8,035,675	-	-	7,591,719	8,035,675
Police	16,547,660	16,313,591	-	-	16,547,660	16,313,591
Fire	10,584,358	10,858,971	-	-	10,584,358	10,858,971
General expenditures	15,866,181	14,189,563	-	-	15,866,181	14,189,563
Civic	107,691	99,863	-	-	107,691	99,863
Library	1,372,640	1,173,073	-	-	1,372,640	1,173,073
Program expenditures	2,583,028	3,720,776	-	-	2,583,028	3,720,776
Interest on long-term debt	5,082,833	4,965,648	-	-	5,082,833	4,965,648
Water fund	-	-	18,411,792	19,347,748	18,411,792	19,347,748
Sewer fund	-	-	9,626,502	10,560,066	9,626,502	10,560,066
Other non-major fund	-	-	1,539,363	1,298,739	1,539,363	1,298,739
<b>Total expenses</b>	<b>71,268,335</b>	<b>70,967,063</b>	<b>29,577,657</b>	<b>31,206,553</b>	<b>100,845,992</b>	<b>102,173,616</b>
Change in net position before transfers	(1,369,828)	3,225,124	4,554,919	1,770,409	3,185,091	4,995,533
Transfers	3,105,925	2,280,924	(3,105,925)	(2,280,924)	-	-
<b>Change in net position</b>	<b>1,736,097</b>	<b>5,506,048</b>	<b>1,448,994</b>	<b>(510,515)</b>	<b>3,185,091</b>	<b>4,995,533</b>
Net position:						
Beginning	(27,662,051)	(33,168,099)	5,261,257	5,771,772	(22,400,794)	(27,396,327)
Ending	<u>\$ (25,925,954)</u>	<u>\$ (27,662,051)</u>	<u>\$ 6,710,251</u>	<u>\$ 5,261,257</u>	<u>\$ (19,215,703)</u>	<u>\$ (22,400,794)</u>

Unrestricted grants in Governmental Activities decreased approximately \$2.0 million. This was the result of a one-time increase in the State Subsidy for Pension of \$2.1 million in 2011.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

Capital grants in Governmental Activities decreased approximately \$2.0 million. This was the result of a \$1.7 million for Broad Street and Pennsylvania Avenue received from the State in 2011 which was not received in 2012.

General expenditures in Governmental Activities increased approximately \$1.7 million. This was due to an increase in medical claims paid of \$1.6 million.

Charges for service in Business-type Activities increased approximately \$2.6 million. This was due to the increases in water and sewer rates for 2012.

Capital grants and contributions in Business-type Activities decreased approximately \$1.4 million. This was due to the decrease in the H2O grants in the water fund.

**Governmental activities.** Governmental activities increased the City's net position by \$1,736,097 for the year ended December 31, 2012. Key elements of this increase are as follows:

- The increase in net position is the result of increases in revenue from Act 56 funds of \$1,374,878 and transfers from enterprise funds of \$825,001.

**Business-type activities.** Business-type activities increased the City's net position by \$1,448,994 for the year ended December 31, 2012. Key elements of this change are as follows:

- The increase is the result of an increase in charges for services of \$2,607,816. On the expenditure side, there was an increase in transfers out of \$825,001.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

### Financial Analysis of the Major Funds

#### General Fund

Revenues of the general fund totaled \$60,382,853 for the year ended December 31, 2012. The following represents a summary of general fund revenue, for the years ended December 31, 2012 and 2011 by source, along with changes from 2011:

	2012	2011	Change From 2011 to 2012	Percentage Change
Taxes	\$ 32,856,541	\$ 32,273,738	\$ 582,803	1.81%
Licenses and permits	2,328,576	2,228,236	100,340	4.50%
Intergovernmental revenues	6,689,279	8,963,649	(2,274,370)	-25.37%
Fines and forfeitures	490,821	547,875	(57,054)	-10.41%
Departmental earnings	6,648,284	6,956,877	(308,593)	-4.44%
Other charges	962,212	589,419	372,793	63.25%
Municipal recreation	490,014	378,706	111,308	29.39%
Investment income	5,326	10,547	(5,221)	-49.50%
Host fee	9,432,179	9,182,235	249,944	2.72%
Other	479,621	1,441,230	(961,609)	-66.72%
Total	<u>\$ 60,382,853</u>	<u>\$ 62,572,512</u>	<u>\$ (2,189,659)</u>	-3.50%

Intergovernmental revenues decreased \$2,274,370 from 2011 to 2012. This was the result of an increase in the State Subsidy for Pension of \$2.1 million, which according to the State was a one-time increase for 2011.

Other decreased by \$961,609 from 2011 to 2012. The decrease was caused by various revenues received in 2011 which weren't received in 2012. These included \$260,000 from Escrow, \$200,000 from BEDCO, \$182,000 from a settlement with JP Morgan Bank, and \$157,000 from the federally funded Early Retiree Reinsurance Program.

Other charges increased by \$372,793 from 2011 to 2012. The increase was due to \$300,000 received from the Bethlehem Parking Authority which was not received in 2011.

Departmental earnings decreased \$308,593 from 2011 to 2012. The decrease was largely due to a decrease in revenues from the sale of recyclable materials. Market prices were down in 2012 from 2011.

Host Fee increased \$249,944 from 2011 to 2012. The increase was due to increased table game revenue the Sands Casino generated in 2012.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

General fund expenditures totaled \$56,505,296, which represents a decrease of \$2,077,630, or 3.5% from 2011. The following represents a summary of general fund expenditures for the years ended December 31, 2012 and 2011, by function, along with changes from 2011:

	2012	2011	Change From 2011 to 2012	Percentage Change
General government	\$ 701,424	\$ 702,484	\$ (1,060)	-0.15%
Administrative	1,030,795	882,207	148,588	16.84%
Community development	4,961,247	5,221,596	(260,349)	-4.99%
Parks and public property	5,408,286	2,873,178	2,535,108	88.23%
Public works	4,016,803	4,236,235	(219,432)	-5.18%
Police	13,156,911	13,295,034	(138,123)	-1.04%
Fire	9,856,526	10,451,184	(594,658)	-5.69%
General expenditures	15,743,566	18,613,088	(2,869,522)	-15.42%
Civic	107,691	99,863	7,828	7.84%
Library	1,277,000	1,230,000	47,000	3.82%
Debt service - principal	238,814	103,386	135,428	130.99%
Debt service - interest	6,233	874,671	(868,438)	-99.29%
<b>Total</b>	<b>\$ 56,505,296</b>	<b>\$ 58,582,926</b>	<b>\$ (2,077,630)</b>	<b>-3.55%</b>

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

- General expenditures decreased by \$2,869,522 due to the City paying all outstanding claims payable from 2010 in 2011 along with paying all claims as incurred in 2011. In 2012, current claims were paid and there was no claims payable owed from 2011.
- Parks and Public Property increased by \$2,535,108 due to the recording of a capital lease for energy efficient upgrades in 2012.
- Debt Service interest expense decreased by \$868,439 due to bond issuance costs from the 2011 working capital borrowing.
- Fire decreased by \$594,658 due to the elimination of the minimum manning requirement in the fire contract. This reduced overtime in the fire department by approximately \$600,000 in 2012.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

### **General Fund Budgetary Highlights**

The General Fund expenditure budget for fiscal year 2012 was approximately \$63.9 million. This was a decrease of \$500,000 over the previous year amended budget. There were no material amendments to the 2012 budget. Actual expenditures were approximately \$1.5 million less than budgeted largely due to vacant positions which were held open. The majority of these positions were in Community Development, Public Works, and Police.

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

Due from other funds decreased by approximately \$1.3 million. This was due to \$1.1 million in dedicated tax revenue being transferred from the General Fund to the Non-Utility Capital Fund in 2012.

Intergovernmental revenues decreased by approximately \$2.5 million from 2011. Capital grants vary from year to year, but some of the larger ones reported for the year ended December 31, 2011 that were significantly less in 2012 were grants for additional work on the Greenway, and an ARRA grant for Broad Street to Pennsylvania Avenue street projects.

Capital outlays decreased by approximately \$2.3 million. This decrease is a reflection on the capital grants the City received for the Greenway and street projects in 2011 that are mentioned in the preceding paragraph. There was significantly less grant expenditures for these projects in 2012.

### **Debt Service Fund**

Principal and interest payments, along with transfers in, increased by approximately \$500,000, in 2012. This was due to the 2011 Bond Issue being settled in mid-2011.

### **Other Non-Major Governmental Funds**

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

### **Pension Trust Fund**

At December 31, 2012, the net position - restricted for employees' retirement pension benefits was \$119,662,247. 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 9.20% in 2012. The Fund returned an average of 8.39% annually since its inception in 1987.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

### Capital Assets

The City's investment in capital assets for its government and business-type activities as of December 31, 2012 amounted to \$61,297,947 and \$99,577,276 (net of accumulated depreciation), respectively. This investment in capital assets includes land and improvements, buildings and improvements, furniture, machinery, equipment, and infrastructure including but not limited to roads, bridges, streetlights, dams, and storm sewer systems.

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

- The City spent \$1,275,086 towards Phase II of the Greenway.
- The City spent \$970,850 towards replacement of the communications consoles in the 9-1-1 Center.
- The City spent \$605,935 towards converting a firehouse into a new EMS facility.
- The City spent \$488,586 towards energy efficient upgrades in City buildings.

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

- The City spent \$2,259,292 on digester and waste activated sludge upgrades.
- The City spent \$727,380 to relocate the combined sewer overflow outfall 004.
- The City spent \$644,768 to construct and repair the collection system and lift stations.
- The City spent \$392,574 on the design of a new solids drying facility and to replace belt filter presses.

Additional information on the City's capital assets can be found at Note 4 on pages 37-41.

### Long-Term Debt

As of December 31, 2012, the City's net non-electoral debt of \$68,205,540, (net of deductions of \$26,121,190), is well below the legal limit of \$162,348,770. Additional information on the City's long-term debt can be found at Note 7 on pages 44-56 of this report.

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

### Economic Outlook

Bethlehem's economy continues to swing upward following the Great Recession. Regionally, the 14,400 jobs that were lost during the recession have been recovered. As of May 2013, an additional 5,200 jobs were added for a net gain of 1.6 percent.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

In Bethlehem, economic activity on the former Bethlehem Steel Corporation property continues. Sands Casino Resort Bethlehem remains the top performing casinos in the Commonwealth of Pennsylvania (Pennsylvania). On the gaming side, table games revenue increased 25 percent over the last year. Sands Bethlehem was the only casino in Pennsylvania not to see a decline in slots revenue in fiscal year 2012-2013. Resort amenities continue to develop around gaming, which further strengthen Bethlehem's position as a destination. The 50,000-square-foot Sands Bethlehem Event Center opened in May 2012 and now boasts a full calendar of live entertainment, including concerts, comedians, boxing, trade shows, conferences and speaking engagements. Retail also continues to expand at the site and 81 percent of the retail space at The Outlets at Sands Bethlehem is currently occupied. Three additional stores are expected to open in August 2013.

Economic activity on the site extends beyond tourism and entertainment. The opening of the Crayola's main distribution center – an 800,000-square-foot warehouse in Majestic Bethlehem Center – earlier in 2013 seems to have encouraged further large-scale development on the site. The 1.2 million-square-foot warehouse built by Liberty Property Trust at Lehigh Valley Industrial Park VII is close to naming its first tenant. Additional construction at LVIP VII includes four more warehouses for a projected total of \$115 million in economic development in this area alone.

Development continues in other areas of Bethlehem as well. Lehigh Valley Charter High School for the Arts is beginning construction of an 87,000-square-foot building expected to open in time for the 2014-15 school year. The \$27 million project is located in the Southside downtown and will bring students, teachers, staff and families to the retail and restaurants surrounding the new school. In West Bethlehem, the 91-year-old Jack Jones Buick car dealership was demolished and a three-story, \$3.2 million medical office building was built in its place. The building sits at a marquee intersection in a key gateway to Bethlehem's downtown and, similar to the new school on the Southside, is expected to bring new business to the surrounding commercial areas.

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

The following is a list of other major development projects:

Residential		Status as of August 2013
Central Park West	\$ 5,500,000	Under Construction
Cherokee Court Condos	1,800,000	Plans Approved
Clermont Development	500,000	Plans Approved
Elliott Ave Development	3,600,000	Plans Approved
Evans St. Apartment Building (not townhouse)	3,000,000	Plans Approved
Glenwood Subdivision (Miga-Glenwood)	900,000	Plans Approved
Habitat for Humanity 9th & Williams	1,200,000	Plans Approved
Henn - Kelchner Road Condos	2,100,000	Plans Approved
Kelchner Rd Condominiums (Rose Hill Condos)	1,820,000	Plans Approved
Lengyel Apartments	1,600,000	Plans Approved
Minsi Ridge	4,050,000	Under Construction / Portions Complete
Mountain Park Condominiums	6,000,000	Under Construction / Portions Complete
Overlook at Saucon Creek	3,000,000	Under Construction / Portions Complete
Park View Commons	3,000,000	Under Construction / Portions Complete
Riverview Heights	5,000,000	Under Construction
Saucon Square Condominiums	3,500,000	Under Construction / Portions Complete
Silk Mill Apartments (Phase 1&2)	13,000,000	Portions Complete / Phase II Plans Approved
Stever Mills on Creek Rd.	15,000,000	Under Construction / Portions Complete
Villas at Saucon Valley	12,000,000	Under Construction/Portions completed
St. Stanislaus South Side Lofts at Hayes St.	7,000,000	Plans Submitted
Atlantic Street South Side Lofts	4,500,000	Plans Submitted
Meadows Townhomes (16 Townhouses)	3,800,000	Under Construction
<b>Residential Subtotal</b>	<b>101,870,000</b>	
Residential/Senior		
Cottages @ Monocacy Manor	4,500,000	Under Construction
Turnberry Mews	10,000,000	Under Construction/Portions Complete
<b>Residential/Senior Subtotal</b>	<b>14,500,000</b>	

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

Institutional		Status as of August 2013
BASD	729,720	Construction Completed 2012
Bethlehem Hospital	6,500,000	Plans Submitted
East Stroudsburg University Extended Learning	400,000	Plans Approved
Lehigh University Goodman Campus / Other	2,762,532	Under Construction / Portions Completed
Lehigh Valley Community Health Center	3,000,000	Under Construction
Lehigh Valley Hospital-Muhlenburg	5,172,503	Under Construction / Portions Completed
Negrao Preschool	1,294,800	Plans Submitted
Moravian College	1,144,201	Under Construction
Moravian Village Memory Care Facility	20,000,000	Plans Approved
Moravian Collection Resource Center	2,500,000	Under Construction
Ben Franklin Tech Expansion	17,000,000	Construction Completed 2013
Brookside Drug, Alc & Psych Facility	13,130,000	Plans Submitted
L.V.Performing Arts Charter High School	25,000,000	Plans Approved
<b>Institutional Subtotal</b>	<b>98,633,756</b>	
Mixed-Use		
Conradical Clever Closets	886,400	Plans Approved
Farr Building	5,500,000	Under Construction
Jack Jones Building	3,200,000	Plans Approved
James Best Mixed Commercial/Residential	5,154,200	Under Construction
Plaza on 8th Mixed Use/Commercial	25,000,000	Under Construction/Portions Complete
SteelStacks Campus	57,500,000	Under Construction/Portions Complete
NMIH	26,000,000	Under Construction
Martin Towner	300,000,000	Plans Approved
409-411 Wyandotte Mixed Use	750,000	Plans Approved
<b>Mixed-Use Subtotal</b>	<b>423,990,600</b>	
Industrial		
Gardner Cryogenics	1,980,000	Plans Submitted
Lusitania Bakery	200,000	Under Construction
LVIP VII LBT Warehouse (lots 3,4,5)	44,000,000	Plans Approved
LVIP VII Commerce Ctr Blvd. Warehouse	74,250,000	Under Construction
LVIP VII Lot 13 Warehouse	9,702,000	Planning Commission Approved
LVIP VII, 2485 Commerce Center Blvd (Lot 61)	50,000,000	Under Construction
Majestic Bethlehem Center	500,000,000	Under Construction
National Magnetic Corporation	250,000	Under Construction
Patriot Distribution	11,770,000	Plans Approved
<b>Industrial Subtotal</b>	<b>692,152,000</b>	

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

Commercial		<u>Status as of August 2013</u>
Chevy21	365,000	Under Construction / Portions Complete
Eaton Pointe	5,119,500	Construction Complete 2013
Freedom Lawn Care	533,500	Plans Approved
One West Fourth	2,000,000	Under Construction / Portions Complete
Polk St. North Building	18,000,000	Plans Approved
Sands Retail / Event Center	30,000,000	Under Construction
Giant Grocery Fueling Facility	375,000	Under Construction
Pet Smart	1,400,000	Under Construction / Renovation
Restaurant Depot	7,400,000	Plans Submitted
Trans Bridge Park & Ride	230,000	Plans Submitted
Third and Taylor Office Building	9,750,000	Plans Approved
<b>Commercial Subtotal</b>	<b>75,173,000</b>	
<b>Grand Total</b>	<b>\$ 1,406,319,356</b>	

### Requests For Information

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## STATEMENT OF NET POSITION

DECEMBER 31, 2012

<b>Assets</b>	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Current assets:					
Cash and cash equivalents	\$ 6,782,243	\$ 4,687,020	\$ 11,469,263	\$ 8,688,821	\$ 20,158,084
Investments	95,975	-	95,975	1,214	97,189
Receivables (net of allowance for uncollectibles):					
Taxes	3,912,599	-	3,912,599	-	3,912,599
Accounts	640,840	5,907,273	6,548,113	368,499	6,916,612
Pledges	-	-	-	16,133	16,133
Other	868,827	-	868,827	10,721	879,548
Accrued interest	-	8,042	8,042	-	8,042
Due from other governments	6,331,352	-	6,331,352	-	6,331,352
Internal balances	1,230,048	(1,230,048)	-	-	-
Inventories	-	227,462	227,462	-	227,462
Prepaid assets	-	-	-	149,923	149,923
<b>Total current assets</b>	<b>19,861,884</b>	<b>9,599,749</b>	<b>29,461,633</b>	<b>9,235,311</b>	<b>38,696,944</b>
Noncurrent assets:					
Loans receivable	2,204,397	-	2,204,397	-	2,204,397
Restricted cash and cash equivalents	-	2,031,561	2,031,561	-	2,031,561
Restricted investments	-	12,629,330	12,629,330	1,406,990	14,036,320
Capital assets, not being depreciated	7,412,329	7,574,533	14,986,862	564,663	15,551,525
Capital assets, net	53,885,618	92,002,743	145,888,361	16,390,758	162,279,119
Other assets	2,506,696	1,631,877	4,138,573	1,520,794	5,659,367
<b>Total noncurrent assets</b>	<b>66,009,040</b>	<b>115,870,044</b>	<b>181,879,084</b>	<b>19,883,205</b>	<b>201,762,289</b>
<b>Total Assets</b>	<b>85,870,924</b>	<b>125,469,793</b>	<b>211,340,717</b>	<b>29,118,516</b>	<b>240,459,233</b>

(Continued)

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

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and other accrued expenses	3,324,121	3,249,020	6,573,141	192,100	6,765,241
Accrued payroll	1,665,745	323,262	1,989,007	128,212	2,117,219
Accrued vacation and other compensated absences	959,105	647,578	1,606,683	269,608	1,876,291
Interest payable	730,171	365,356	1,095,527	103,812	1,199,339
Escrow liabilities	15,960	-	15,960	-	15,960
Current portion of long-term debt	4,143,000	6,852,872	10,995,872	4,964,071	15,959,943
Current portion of capital lease obligations	304,015	39,901	343,916	131,801	475,717
Line-of-credit	-	-	-	200,000	200,000
Due to Agency Fund	2,902,732	14,068	2,916,800	-	2,916,800
Unearned revenue	6,292,391	-	6,292,391	158,309	6,450,700
<b>Total current liabilities</b>	<b>20,337,240</b>	<b>11,492,057</b>	<b>31,829,297</b>	<b>6,147,913</b>	<b>37,977,210</b>
Noncurrent liabilities:					
Accrued vacation and other compensated absences, net of current portion	3,216,438	-	3,216,438	-	3,216,438
Accrued sick pay	-	201,004	201,004	-	201,004
Long-term debt, net of current portion	82,730,988	106,330,426	189,061,414	32,699,526	221,760,940
Capital lease obligation, net of current portion	2,471,316	87,713	2,559,029	452,538	3,011,567
Other post-employment benefit liability	3,040,896	648,342	3,689,238	-	3,689,238
Unearned revenue	-	-	-	392,654	392,654
<b>Total noncurrent liabilities</b>	<b>91,459,638</b>	<b>107,267,485</b>	<b>198,727,123</b>	<b>33,544,718</b>	<b>232,271,841</b>
<b>Total Liabilities</b>	<b>111,796,878</b>	<b>118,759,542</b>	<b>230,556,420</b>	<b>39,692,631</b>	<b>270,249,051</b>
<b>Net Position</b>					
Net investment in capital assets	27,517,063	5,956,401	33,473,464	5,046,813	38,520,277
Restricted	719,419	-	719,419	1,837,216	2,556,635
Unrestricted	(54,162,436)	753,850	(53,408,586)	(17,458,144)	(70,866,730)
<b>Total Net Position</b>	<b>\$ (25,925,954)</b>	<b>\$ 6,710,251</b>	<b>\$ (19,215,703)</b>	<b>\$ (10,574,115)</b>	<b>\$ (29,789,818)</b>

(Concluded)

# CITY OF BETHLEHEM, PENNSYLVANIA

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

<b>Function/Programs:</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 753,288	\$ -	\$ -	\$ -
Administrative	1,125,834	275,396	148,716	-
Community development	5,295,376	3,888,316	2,156,567	223,668
Parks and public property	4,357,727	663,385	424,645	1,299,293
Public works	7,591,719	1,302,657	1,756,062	636,265
Police	16,547,660	2,442,793	2,914,206	-
Fire	10,584,358	3,068,206	-	132,133
General expenditures	15,866,181	-	-	-
Civic	107,691	-	-	-
Library	1,372,640	-	-	-
Program expenditures	2,583,028	-	2,523,323	-
Interest on long-term debt	5,082,833	-	-	-
<b>Total governmental activities</b>	<b>71,268,335</b>	<b>11,640,753</b>	<b>9,923,519</b>	<b>2,291,359</b>
Business-type activities:				
Water Fund	18,411,792	19,296,894	-	298,912
Sewer Fund	9,626,502	12,669,954	-	1,867
Other non-major funds	1,539,363	1,424,355	-	-
<b>Total business-type activities</b>	<b>29,577,657</b>	<b>33,391,203</b>	<b>-</b>	<b>300,779</b>
<b>Total primary government</b>	<b>\$ 100,845,992</b>	<b>\$ 45,031,956</b>	<b>\$ 9,923,519</b>	<b>\$ 2,592,138</b>
<b>Component units:</b>				
Bethlehem Parking Authority	\$ 4,542,094	\$ 4,583,107	\$ -	\$ -
Bethlehem Public Library	3,309,564	261,527	3,322,093	-
Bethlehem Redevelopment Authority	17,239,423	-	-	10,624,781
<b>Total component units</b>	<b>\$ 25,091,081</b>	<b>\$ 4,844,634</b>	<b>\$ 3,322,093</b>	<b>\$ 10,624,781</b>

**General Revenues:**

Real estate taxes and other taxes

Grants and other charges not restricted  
to specific programs

Investment income

Transfers

Total general revenues and transfers

**Change in Net Position**

**Net Position:**

Beginning of year

End of year

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

Net (Expense) Revenue and  
Changes in Net Position

Primary Government			Component Units	Total
Governmental Activities	Business-Type Activities	Total		Reporting Entity
\$ (753,288)	\$ -	\$ (753,288)	\$ -	\$ (753,288)
(701,722)	-	(701,722)	-	(701,722)
973,175	-	973,175	-	973,175
(1,970,404)	-	(1,970,404)	-	(1,970,404)
(3,896,735)	-	(3,896,735)	-	(3,896,735)
(11,190,661)	-	(11,190,661)	-	(11,190,661)
(7,384,019)	-	(7,384,019)	-	(7,384,019)
(15,866,181)	-	(15,866,181)	-	(15,866,181)
(107,691)	-	(107,691)	-	(107,691)
(1,372,640)	-	(1,372,640)	-	(1,372,640)
(59,705)	-	(59,705)	-	(59,705)
(5,082,833)	-	(5,082,833)	-	(5,082,833)
(47,412,704)	-	(47,412,704)	-	(47,412,704)
-	1,184,014	1,184,014	-	1,184,014
-	3,045,319	3,045,319	-	3,045,319
-	(115,008)	(115,008)	-	(115,008)
-	4,114,325	4,114,325	-	4,114,325
(47,412,704)	4,114,325	(43,298,379)	-	(43,298,379)
-	-	-	41,013	41,013
-	-	-	274,056	274,056
-	-	-	(6,614,642)	(6,614,642)
-	-	-	(6,299,573)	(6,299,573)
32,534,333	-	32,534,333	-	32,534,333
13,440,010	-	13,440,010	-	13,440,010
68,533	440,594	509,127	160,226	669,353
3,105,925	(3,105,925)	-	-	-
49,148,801	(2,665,331)	46,483,470	160,226	46,643,696
1,736,097	1,448,994	3,185,091	(6,139,347)	(2,954,256)
(27,662,051)	5,261,257	(22,400,794)	(4,434,768)	(26,835,562)
\$ (25,925,954)	\$ 6,710,251	\$ (19,215,703)	\$ (10,574,115)	\$ (29,789,818)

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2012

	General Fund	Non-Utility Capital Improvements Fund	Debt Service Fund	Other Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 2,197,956	\$ 1,641,372	\$ -	\$ 2,893,229	\$ 6,732,557
Investments	-	95,975	-	-	95,975
Receivables:					
Taxes	3,912,599	-	-	-	3,912,599
Accounts	640,840	-	-	-	640,840
Loans	-	-	-	2,204,397	2,204,397
Other	779,409	10,704	-	78,714	868,827
Due from other funds	1,303,326	1,368,718	-	107,084	2,779,128
Due from other governments	5,911,742	161,997	-	257,613	6,331,352
<b>Total Assets</b>	<b>\$ 14,745,872</b>	<b>\$ 3,278,766</b>	<b>\$ -</b>	<b>\$ 5,541,037</b>	<b>\$ 23,565,675</b>
<b>Liabilities and Fund Balance</b>					
Liabilities:					
Accounts payable and other accrued expenses	\$ 1,649,432	\$ 1,198,345	\$ -	\$ 476,344	\$ 3,324,121
Accrued payroll	1,592,946	-	-	72,799	1,665,745
Accrued vacation and other compensated absences	921,456	-	-	37,649	959,105
Escrow liabilities	15,960	-	-	-	15,960
Due to other funds	4,386,421	65,570	-	-	4,451,991
Unearned revenues	2,542,155	206,245	-	5,960,742	8,709,142
<b>Total Liabilities</b>	<b>11,108,370</b>	<b>1,470,160</b>	<b>-</b>	<b>6,547,534</b>	<b>19,126,064</b>
Fund Balances:					
Restricted for:					
Parks and public property	103,523	-	-	-	103,523
Community development	174,746	-	-	-	174,746
Capital projects	-	1,808,606	-	-	1,808,606
Public works	-	-	-	441,150	441,150
Unassigned	3,359,233	-	-	(1,447,647)	1,911,586
<b>Total Fund Balance</b>	<b>3,637,502</b>	<b>1,808,606</b>	<b>-</b>	<b>(1,006,497)</b>	<b>4,439,611</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 14,745,872</b>	<b>\$ 3,278,766</b>	<b>\$ -</b>	<b>\$ 5,541,037</b>	<b>\$ 23,565,675</b>

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

DECEMBER 31, 2012

<b>Total Fund Balance - Governmental Funds</b>	\$ 4,439,611
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	61,297,947
Real estate taxes, earned income taxes, and the stakeholder agreement not collected within a period of time subsequent to year-end are recognized as revenue in the statement of net position.	2,416,751
Accrued vacation and other compensated absences not due within the next twelve months are recorded on the statement of net position.	(3,216,438)
Other post-employment benefit liability is recorded on the statement of net position.	(3,040,896)
Debt issuance costs and loss on refunding are amortized on the statement of net position.	2,571,360
Long-term liabilities, including bonds and notes payable and capital lease obligations, are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds and notes	(86,938,652)
Capital leases	(2,775,331)
Accrued interest payable is included on the statement of net position.	(730,171)
Assets and liabilities of the internal service fund reported in the statement of net position are used to charge the costs of insurance to individual funds and are not reported in the governmental funds.	<u>49,865</u>
<b>Net Position - Governmental Activities</b>	<u><u>\$ (25,925,954)</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, 2012

	General Fund	Non-Utility Capital Improvements Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 32,856,541	\$ -	\$ -	\$ -	\$ 32,856,541
Licenses and permits	2,328,576	-	-	-	2,328,576
Intergovernmental revenues	6,689,279	2,184,089	-	6,479,237	15,352,605
Fines and forfeitures	490,821	-	-	-	490,821
Departmental earnings	6,648,284	-	-	-	6,648,284
Other charges	962,212	-	-	578,034	1,540,246
Municipal recreation	490,014	-	-	-	490,014
Investment income	5,326	1,217	-	61,990	68,533
Host fee	9,432,179	-	-	-	9,432,179
Other	479,621	47,663	-	62,630	589,914
Total revenues	60,382,853	2,232,969	-	7,181,891	69,797,713
<b>Expenditures:</b>					
Current:					
General government	701,424	-	-	-	701,424
Administrative	1,030,795	-	-	-	1,030,795
Community development	4,961,247	-	-	-	4,961,247
Parks and public property	5,408,286	-	-	-	5,408,286
Public works	4,016,803	-	-	1,155,838	5,172,641
Police	13,156,911	-	-	3,135,670	16,292,581
Fire	9,856,526	-	-	-	9,856,526
General expenditures	15,743,566	-	-	-	15,743,566
Civic	107,691	-	-	-	107,691
Library	1,277,000	-	-	-	1,277,000
Program expenditures	-	-	-	2,583,028	2,583,028
Capital outlays	-	4,950,509	-	-	4,950,509
Debt service - principal	238,814	37,437	3,090,000	-	3,366,251
Debt service - interest	6,233	3,673	4,857,200	-	4,867,106
Total expenditures	56,505,296	4,991,619	7,947,200	6,874,536	76,318,651
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>3,877,557</b>	<b>(2,758,650)</b>	<b>(7,947,200)</b>	<b>307,355</b>	<b>(6,520,938)</b>
<b>Other Financing Sources (Uses):</b>					
Transfers in	2,705,925	1,421,209	7,947,200	1,043,465	13,117,799
Transfers out	(8,577,620)	(1,048,183)	-	(386,071)	(10,011,874)
Capital lease	2,729,428	-	-	-	2,729,428
Total other financing sources (uses)	(3,142,267)	373,026	7,947,200	657,394	5,835,353
<b>Net Change in Fund Balance</b>	<b>735,290</b>	<b>(2,385,624)</b>	<b>-</b>	<b>964,749</b>	<b>(685,585)</b>
<b>Fund Balance:</b>					
Beginning of the year	2,902,212	4,194,230	-	(1,971,246)	5,125,196
End of the year	\$ 3,637,502	\$ 1,808,606	\$ -	\$ (1,006,497)	\$ 4,439,611

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, 2012

<b>Net Change in Fund Balance - Governmental Funds</b>	<b>\$ (685,585)</b>
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 (\$10,543,317) exceeded depreciation (\$6,939,396) and loss on disposal (\$213,214) in the current period.	3,390,707
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.	(393,287)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of those differences in the treatment of long-term debt.	
Issuance of debt	(2,729,428)
Repayment of principal	3,366,251
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.	26,890
Change in accrued vacation and other compensated absences not due within the next twelve months in the statement of activities.	(388,866)
Change in other post-employment benefit liability in the statement of activities.	(485,353)
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.	(242,617)
Activities of the internal service fund are reported as net income within the statement of activities.	(122,615)
<b>Change in Net Position - Governmental Activities</b>	<b>\$ 1,736,097</b>

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## BALANCE SHEET - PROPRIETARY FUNDS

DECEMBER 31, 2012

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 289,044	\$ 4,397,837	\$ 139	\$ 4,687,020	\$ 49,686
Accounts receivable, net	2,837,579	3,069,694	-	5,907,273	-
Accrued interest	8,042	-	-	8,042	-
Due from other funds	188,130	-	10,570	198,700	179
Inventories	161,348	14,396	51,718	227,462	-
<b>Total current assets</b>	<b>3,484,143</b>	<b>7,481,927</b>	<b>62,427</b>	<b>11,028,497</b>	<b>49,865</b>
Restricted assets:					
Cash and cash equivalents	2,031,561	-	-	2,031,561	-
Investments	12,629,330	-	-	12,629,330	-
Capital assets, not being depreciated	1,019,335	6,380,198	175,000	7,574,533	-
Capital assets, net	83,818,560	7,610,317	573,866	92,002,743	-
Other assets	1,439,573	178,373	13,931	1,631,877	-
<b>Total Assets</b>	<b>\$ 104,422,502</b>	<b>\$ 21,650,815</b>	<b>\$ 825,224</b>	<b>\$ 126,898,541</b>	<b>\$ 49,865</b>
<b>Liabilities and Net Position</b>					
Liabilities:					
Current liabilities:					
Accounts payable and other accrued expenses	\$ 431,068	\$ 441,937	\$ 89,124	\$ 962,129	\$ -
Accrued payroll	185,023	119,263	18,976	323,262	-
Accrued vacation and other compensated absences	352,718	238,589	56,271	647,578	-
Construction accounts payable	661,442	1,625,449	-	2,286,891	-
Interest payable	325,115	35,819	4,422	365,356	-
Current portion of long-term debt	6,014,872	775,000	63,000	6,852,872	-
Current portion of capital lease obligation	-	-	39,901	39,901	-
Due to other funds	1,157,836	133,130	151,850	1,442,816	-
<b>Total current liabilities</b>	<b>9,128,074</b>	<b>3,369,187</b>	<b>423,544</b>	<b>12,920,805</b>	<b>-</b>
Accrued sick pay	140,291	60,713	-	201,004	-
Long-term debt, net	95,563,942	10,561,484	205,000	106,330,426	-
Capital lease obligation, net	-	-	87,713	87,713	-
Other post-employment benefits liability	392,264	208,866	47,212	648,342	-
<b>Total Liabilities</b>	<b>105,224,571</b>	<b>14,200,250</b>	<b>763,469</b>	<b>120,188,290</b>	<b>-</b>
Net Position:					
Net investment in capital assets	(1,301,897)	6,905,046	353,252	5,956,401	-
Unrestricted	499,828	545,519	(291,497)	753,850	49,865
<b>Total Net Position</b>	<b>(802,069)</b>	<b>7,450,565</b>	<b>61,755</b>	<b>6,710,251</b>	<b>49,865</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 104,422,502</b>	<b>\$ 21,650,815</b>	<b>\$ 825,224</b>	<b>\$ 126,898,541</b>	<b>\$ 49,865</b>

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

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

YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
<b>Operating Revenues:</b>					
Charges for services	\$ 19,007,307	\$ 12,234,122	\$ 1,415,524	\$ 32,656,953	\$ 9,735,328
<b>Operating Expenses:</b>					
Salaries, wages, and fringe benefits	4,751,750	3,457,772	718,849	8,928,371	-
Professional fees	660,030	146,937	2,550	809,517	-
Utilities	305,454	681,805	49,712	1,036,971	-
Maintenance and repairs	93,874	171,384	55,354	320,612	-
Department contracts	221,428	1,196,622	71,085	1,489,135	-
Supplies	455,954	626,638	183,106	1,265,698	-
Service charges	2,945,099	1,484,449	305,160	4,734,708	-
Depreciation and amortization	4,903,988	1,676,286	92,986	6,673,260	-
Insurance claims	-	-	-	-	9,973,184
Administration	-	-	-	-	33,153
Other	274,571	55,080	43,784	373,435	-
Total operating expenses	14,612,148	9,496,973	1,522,586	25,631,707	10,006,337
<b>Operating Income (Loss)</b>	4,395,159	2,737,149	(107,062)	7,025,246	(271,009)
<b>Non-Operating Revenues (Expenses):</b>					
Investment income	440,836	(242)	-	440,594	3
Interest expense	(3,799,644)	(129,529)	(16,777)	(3,945,950)	-
Grants	298,912	1,867	-	300,779	-
Other revenues	289,587	435,832	8,831	734,250	148,391
Total non-operating revenues (expenses)	(2,770,309)	307,928	(7,946)	(2,470,327)	148,394
Change in net position before transfers	1,624,850	3,045,077	(115,008)	4,554,919	(122,615)
Transfers out	(300,000)	(2,805,925)	-	(3,105,925)	-
<b>Change in Net Position</b>	1,324,850	239,152	(115,008)	1,448,994	(122,615)
<b>Net Position:</b>					
Beginning of year	(2,126,919)	7,211,413	176,763	5,261,257	172,480
End of year	\$ (802,069)	\$ 7,450,565	\$ 61,755	\$ 6,710,251	\$ 49,865

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, 2012

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other Enterprise Fund	Total	
			Municipal Golf Fund		
<b>Cash Flows From Operating Activities:</b>					
Receipts from customers	\$ 18,666,054	\$ 12,198,140	\$ 1,405,535	\$ 32,269,729	\$ 9,900,073
Payments to suppliers for services	(5,100,419)	(4,410,551)	(638,997)	(10,149,967)	(10,022,366)
Payment to employees	(4,631,387)	(3,405,219)	(694,243)	(8,730,849)	-
Net cash provided by (used in) operating activities	8,934,248	4,382,370	72,295	13,388,913	(122,293)
<b>Cash Flows From Noncapital Financing Activities:</b>					
Transfers out	(300,000)	(2,805,925)	-	(3,105,925)	-
Other revenues received	289,587	435,832	8,831	734,250	148,391
Net cash provided by (used in) noncapital financing activities	(10,413)	(2,370,093)	8,831	(2,371,675)	148,391
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Acquisition and construction of capital assets	(1,883,373)	(4,138,563)	-	(6,021,936)	-
Grant proceeds	432,700	1,867	-	434,567	-
Principal payments on debt	(5,741,235)	(2,913,729)	(60,000)	(8,714,964)	-
Interest payments on debt	(3,323,782)	(172,258)	(17,767)	(3,513,807)	-
Principal payments on capital lease obligations	-	-	(41,135)	(41,135)	-
Proceeds from issuance of debt	1,057,299	9,428,995	-	10,486,294	-
Discount on issuance of debt	-	(134,315)	-	(134,315)	-
Payment of debt issuance costs	-	(123,203)	-	(123,203)	-
Net cash provided by (used in) capital and related financing activities	(9,458,391)	1,948,794	(118,902)	(7,628,499)	-
<b>Cash Flows From Investing Activities:</b>					
Net sales (purchases) of investments	(5,745)	16,289	-	10,544	-
Interest and dividends on investments	440,836	(242)	-	440,594	3
Net cash provided by investing activities	435,091	16,047	-	451,138	3
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(99,465)	3,977,118	(37,776)	3,839,877	26,101
<b>Cash and Cash Equivalents:</b>					
Beginning of year	2,420,070	420,719	37,915	2,878,704	23,585
End of year	<u>\$ 2,320,605</u>	<u>\$ 4,397,837</u>	<u>\$ 139</u>	<u>\$ 6,718,581</u>	<u>\$ 49,686</u>

(Continued)

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

**CITY OF BETHLEHEM, PENNSYLVANIA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

YEAR ENDED DECEMBER 31, 2012  
(Continued)

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>					
Operating income (loss)	\$ 4,395,159	\$ 2,737,149	\$ (107,062)	\$ 7,025,246	\$ (271,009)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	4,903,988	1,676,286	92,986	6,673,260	-
Non-cash expenses	-	-	12,775	12,775	-
Loss on disposal of capital assets	-	-	2,150	2,150	-
Changes in assets and liabilities:					
Accounts receivable	(68,593)	(335,982)	-	(404,575)	164,745
Due from other funds	-	300,000	-	300,000	-
Inventories	(20,567)	2,181	(1,966)	(20,352)	-
Other assets	-	-	(9,989)	(9,989)	-
Accrued vacation and other compensated absences	52,236	18,699	14,277	85,212	-
Accrued payroll	3,266	2,921	2,728	8,915	-
Accounts payable and other accrued expenses	(123,442)	(49,817)	20,045	(153,214)	-
Due to other funds	(272,660)	-	38,750	(233,910)	-
Other post-employment benefits liability	64,861	30,933	7,601	103,395	-
Claims payable	-	-	-	-	(16,029)
Net cash provided by (used in) operating activities	<u>\$ 8,934,248</u>	<u>\$ 4,382,370</u>	<u>\$ 72,295</u>	<u>\$ 13,388,913</u>	<u>\$ (122,293)</u>
<b>Non-cash Capital and Related Financing Activities:</b>					
Issuance of capital lease	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,452</u>	<u>\$ 131,452</u>	<u>\$ -</u>

(Concluded)

# CITY OF BETHLEHEM, PENNSYLVANIA

## STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2012

	Employee Benefit Trust Fund	Agency Fund
<hr/> <b>Assets</b> <hr/>		
Cash and cash equivalents	\$ 500,000	\$ 1,092,518
Interest and dividends receivable	372,862	-
Due from the City	-	2,916,800
Investments	118,789,385	-
<b>Total Assets</b>	<b>119,662,247</b>	<b>4,009,318</b>
<hr/> <b>Liabilities</b> <hr/>		
Escrow liabilities	-	4,009,318
<b>Total Liabilities</b>	<b>-</b>	<b>\$ 4,009,318</b>
<hr/> <b>Net Position</b> <hr/>		
Restricted for employees' retirement benefits	119,662,247	
<b>Total Net Position</b>	<b>\$ 119,662,247</b>	

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

**CITY OF BETHLEHEM, PENNSYLVANIA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**YEAR ENDED DECEMBER 31, 2012**

	<u>Employee Benefit Trust Fund</u>
<b>Additions:</b>	
<hr/>	
Contributions:	
Employee contributions	\$ 1,318,623
Employer contributions	4,445,521
Total contributions	<u>5,764,144</u>
Investment earnings:	
Investment income	4,084,767
Realized and unrealized gains, net	6,637,335
Net investment earnings	<u>10,722,102</u>
Total additions	<u>16,486,246</u>
<b>Deductions:</b>	
<hr/>	
Benefits paid	9,526,450
Administrative costs	705,258
Total deductions	<u>10,231,708</u>
<b>Change in Net Position</b>	<b>6,254,538</b>
<b>Net Position:</b>	
<hr/>	
Beginning of year	<u>113,407,709</u>
End of year	<u><u>\$ 119,662,247</u></u>

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2012

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 274,202	\$ 968,260	\$ 7,446,359	\$ 8,688,821
Investments	1,214	-	-	1,214
Accounts receivable, net	261,925	42,900	63,674	368,499
Pledges receivable	-	16,133	-	16,133
Other receivables	10,721	-	-	10,721
Prepaid expenses	6,922	143,001	-	149,923
Total current assets	554,984	1,170,294	7,510,033	9,235,311
Restricted investments	-	1,406,990	-	1,406,990
Capital assets, not being depreciated	559,663	5,000	-	564,663
Capital assets, net	16,272,009	87,644	31,105	16,390,758
Other assets	154,997	-	1,365,797	1,520,794
<b>Total Assets</b>	<b>\$ 17,541,653</b>	<b>\$ 2,669,928</b>	<b>\$ 8,906,935</b>	<b>\$ 29,118,516</b>

(Continued)

# CITY OF BETHLEHEM, PENNSYLVANIA

## BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2012

(Continued)

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
<b>Liabilities and Net Position</b>				
<b>Liabilities:</b>				
Accounts payable and other accrued expenses	\$ 99,703	\$ 67,827	\$ 24,570	\$ 192,100
Accrued payroll	52,173	76,039	-	128,212
Accrued vacation and other compensated absences	119,825	149,783	-	269,608
Interest payable	103,812	-	-	103,812
Current portion of long-term debt	1,363,274	-	3,600,797	4,964,071
Current portion of capital lease obligation	131,801	-	-	131,801
Line-of-credit	-	200,000	-	200,000
Unearned revenue	158,309	-	-	158,309
	2,028,897	493,649	3,625,367	6,147,913
Total current liabilities				
Long-term debt, net	9,569,526	-	23,130,000	32,699,526
Capital lease obligation, net of current portion	452,538	-	-	452,538
Unearned revenue	392,654	-	-	392,654
	12,443,615	493,649	26,755,367	39,692,631
<b>Total Liabilities</b>				
<b>Net Position:</b>				
Net investment in capital assets	4,923,064	92,644	31,105	5,046,813
Restricted	-	1,837,216	-	1,837,216
Unrestricted	174,974	246,419	(17,879,537)	(17,458,144)
	5,098,038	2,176,279	(17,848,432)	(10,574,115)
<b>Total Net Position</b>				
<b>Total Liabilities and Net Position</b>	\$ 17,541,653	\$ 2,669,928	\$ 8,906,935	\$ 29,118,516

(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, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	
Bethlehem Parking Authority	\$ 4,542,094	\$ 4,583,107	\$ -	\$ -	\$ 41,013	\$ -	\$ -	\$ 41,013
Bethlehem Public Library	3,309,564	261,527	3,322,093	-	-	274,056	-	274,056
Bethlehem Redevelopment Authority	17,239,423	-	-	10,624,781	-	-	(6,614,642)	(6,614,642)
<b>Total Component Units</b>	<b>\$ 25,091,081</b>	<b>\$ 4,844,634</b>	<b>\$ 3,322,093</b>	<b>\$ 10,624,781</b>	<b>41,013</b>	<b>274,056</b>	<b>(6,614,642)</b>	<b>(6,299,573)</b>
General Revenues:								
Investment income					5	125,558	34,663	160,226
Total general revenues					5	125,558	34,663	160,226
<b>Change in Net Position</b>					<b>41,018</b>	<b>399,614</b>	<b>(6,579,979)</b>	<b>(6,139,347)</b>
<b>Net Position:</b>								
Beginning of year					5,057,020	1,776,665	(11,268,453)	(4,434,768)
End of year					<u>\$ 5,098,038</u>	<u>\$ 2,176,279</u>	<u>\$ (17,848,432)</u>	<u>\$ (10,574,115)</u>

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### **Financial Reporting Entity**

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

#### **Basis of Presentation**

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

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

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

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

The City reports the following major proprietary funds:

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

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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

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

The City's Fiduciary Funds 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.

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, 911 Fund, Community Development Block Grant Fund, and Liquid Fuels Fund.

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### **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. Water and Sewer Fund accounts receivable are recorded net of an allowance for uncollectible fees, which at December 31, 2012 were \$91,958 and \$88,126, respectively.

### **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 2012 is as follows:

January 1, 2012	original levy date
January 1, 2012 – March 30, 2012	2% discount period
April 1, 2012 - May 31, 2012	face payment period
June 1, 2012 - December 31, 2012	10% penalty period

In addition, City taxes may be paid in four installments due approximately February 6, April 9, June 4, and August 6 of the tax year with no discount period allowed. Any delinquent installment is subject to a penalty of 10%.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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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 2012 millage was 6.73 for general purposes, 0.75 for a 911 console upgrade, 0.95 for recreation, 4.61 for debt service, 0.4 for landfill debt, 0.5 for Hirko settlement debt, and 0.91 for library.

### **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, 2012, 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 \$5,000 for all capital assets.

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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

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

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

### **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 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 and firefighters, are permitted, under the City's present sick leave policy, to accumulate an unlimited number of days of sick leave to be paid to the employee when proper proof of illness is demonstrated. Police officers may accumulate up to 260 days of sick leave. Firefighters may accumulate up to 170 days of sick leave. Accumulated sick leave is not paid to an employee upon termination, except upon retirement. At that time, police and fire employees receive \$25 per day for accumulated sick leave, while all other employees receive \$15 per day for the first 170 days and \$20 per day for each day over 170 days. Employees that have up to twelve years of experience and voluntarily resign

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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receive \$10 per day for accumulated sick leave up to a maximum of 50 days.

### **Unearned Revenues**

Unearned 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. Unearned 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.

### **Net Position**

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

*Net Investment in Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

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

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

### **Fund Balance**

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

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

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

The City's policy is to use funds in the order of the most restrictive to the least restrictive.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### **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 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 November of 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *“The Financial Reporting Entity: Omnibus.”* Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The provisions of this Statement are effective for the City’s December 31, 2013 financial statements.

In April of 2012, the GASB issued Statement No. 65, *“Items Previously Reported as Assets and Liabilities.”* Statement No. 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for the City’s December 31, 2013 financial statements.

In June of 2012, the GASB issued Statements No. 67 and 68, *“Financial Reporting for Pension Plans”* and *“Accounting and Financial Reporting for Pensions.”* These Statements revise and establish reporting requirements for most governments that provide their employees with pension benefits. The provisions of these Statements are effective for the City’s December 31, 2014 and 2015 financial statements.

In April of 2013, the GASB issued Statement No. 70, *“Accounting and Financial Reporting for Nonexchange Financial Guarantees.”* Statement No. 70 improves accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for the City’s December 31, 2014 financial statements.

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

## **2. REPORTING ENTITY**

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

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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

### **Bethlehem Authority**

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

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

### **Bethlehem Area Public Library**

The Bethlehem Area Public Library (Library) provides library services to the City and nearby communities. The Library is governed by 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, and Bethlehem Township. The City supports the Library. The City's 2012 appropriation to the Library was \$1,277,000, which represented 38% of the Library's General Fund revenue. Title to the assets of the Library rests with the City directly or indirectly through the Board of Directors. Separate financial statements were issued by the Library and can be obtained by contacting the Library.

### **Bethlehem Parking Authority**

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### **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 Redevelopment Authority.

### **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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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- 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 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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### **A. Deposits**

*Custodial Credit Risk.* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2012, the City's book balance was \$15,093,342 and the bank balance was \$15,665,043. Of the bank balance, \$2,335,796 was covered by federal depository insurance and \$13,329,247 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

Reconciliation to total cash and cash equivalents:	
Governmental activities:	
Unrestricted	\$ 6,782,243
Business-type activities:	
Unrestricted	4,687,020
Restricted	2,031,561
Fiduciary funds:	
Employee benefit trust fund	500,000
Agency fund	1,092,518
Total cash and cash equivalents	<u>\$ 15,093,342</u>

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### **B. Investments**

The fair value of the investments of the City at December 31, 2012 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 9,416,307
External investment pool	3,571,234
U.S. Government obligations	14,480,986
U.S. Government agency obligations	4,658,239
Municipal bonds	547,025
Corporate bonds and notes	17,926,515
Equity mutual funds	1,841,811
Equities	51,780,753
Real estate equity fund	4,283,184
Collective investment trust - fixed income	6,656,392
Collective investment trust - equity	9,930,944
Other investments	6,421,300
Total investments	<u>\$ 131,514,690</u>
<u>Reconciliation to total investments</u>	
Governmental activities:	
Unrestricted	\$ 95,975
Business-type activities:	
Restricted	12,629,330
Fiduciary funds:	
Employee benefit trust fund	<u>118,789,385</u>
Total investments	<u>\$ 131,514,690</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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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*Custodial credit risk.* Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The City does not have an investment policy for custodial credit risk. Of the City's investments, \$89,149,941 are held by the counterparty's trust department or agent in the City's name, \$8,464,573 are held by the counterparty's trust department or agent not in the name of the City, and the remaining balance of \$33,900,176 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, 2012:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 9,416,307	AAA
External investment pool	3,571,234	AAA
U.S. Government agency obligations	2,542,161	AAA
U.S. Government agency obligations	2,116,078	AA+
Municipal bonds	339,401	AA+
Municipal bonds	207,624	AA-
Corporate bonds and notes	379,503	AAA
Corporate bonds and notes	725,785	AA+
Corporate bonds and notes	869,227	AA
Corporate bonds and notes	1,148,613	AA-
Corporate bonds and notes	1,522,001	A+
Corporate bonds and notes	2,965,524	A
Corporate bonds and notes	4,195,290	A-
Corporate bonds and notes	2,242,548	BBB+
Corporate bonds and notes	3,063,915	BBB
Corporate bonds and notes	759,984	BBB-
Corporate bonds and notes	54,125	BB+
Collective investment trust - fixed income	6,656,392	B/B2

*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, 2012, the City does not hold more than five percent of the City's investments in any one issuer.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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

	Fair Value	Investment Maturities			2024 and beyond
		2013	2014-2018	2019-2023	
Money market funds	\$ 9,416,307	\$ 9,416,307	\$ -	\$ -	\$ -
External investment pool	3,571,234	3,571,234	-	-	-
U.S. Government obligations	14,480,986	7,345,484	3,319,500	3,816,002	-
U.S. Government agency obligations	4,658,239	2,542,161	1,852,084	178,606	85,388
Municipal bonds	547,025	102,420	444,605	-	-
Corporate bonds and notes	17,926,515	693,716	12,863,345	3,706,475	662,979
Collective investment trust - fixed income	6,656,392	-	-	6,656,392	-
	<u>\$57,256,698</u>	<u>\$23,671,322</u>	<u>\$18,479,534</u>	<u>\$14,357,475</u>	<u>\$ 748,367</u>

### Other Investments

At December 31, 2012, the City's Employee Benefit Trust Fund was invested in CCA Green, LP Partner's Capital, a limited partnership, in the amount of \$6,421,300. The partnership's primary investments consist of in-force, non-variable universal life insurance policies insuring the lives of individuals of at least sixty-five years of age who have a life expectancy as of the date of purchase of between one and fifteen years at a price greater than the cash surrender value offered by the life insurance companies, but less than the face amount of or the death benefit payable under such policies. The partnership uses a probabilistic method in order 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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### **C. Restricted Cash, Cash Equivalents, and Investments**

#### *Business-Type Activities*

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

#### Component Units

##### *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, 2012, the Parking Authority's book balance was \$274,202 and the bank balance was \$333,347. Of the bank balance at December 31, 2012, \$253,338 was covered by federal depository insurance and \$80,009 was collateralized under the Act, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

#### **B. Investments**

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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At December 31, 2012, the Parking Authority's investment in the external investment pool was \$1,214.

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, 2012, 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, 2012, 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, 2012, the Library's book balance was \$968,260 and the bank balance was \$1,072,993. Of the bank balance, \$250,000 was covered by federal depository insurance and \$822,993 was collateralized under the Act, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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

The fair value of the investments of the Library at December 31, 2012 was as follows:

Investments	Fair Value
Money market funds	\$ 144,750
U.S. Government agency obligations	83,024
Municipal bonds	25,953
Corporate bonds	215,461
Equities	937,802
Total investments	\$ 1,406,990

*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.

*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, 2012:

	Fair Value	Rating
Money market funds	\$ 144,750	AAA
Municipal bonds	25,953	AA-
Corporate bonds	30,252	AAA
Corporate bonds	15,663	AA
Corporate bonds	55,674	A+
Corporate bonds	34,407	A
Corporate bonds	28,695	A-
Corporate bonds	50,770	BBB+

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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*Concentration of credit risk* – The Library places no limit on the amount the Library may invest in any one issuer. At December 31, 2012, 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	
		2013	2014-2018
U.S. Government agency obligations	\$ 83,024	\$ 50,585	\$ 32,439
Municipal bonds	25,953	-	25,953
Corporate bonds	215,461	115,429	100,032
Total	<u>\$ 324,438</u>	<u>\$ 166,014</u>	<u>\$ 158,424</u>

### *Redevelopment Authority*

#### **A. Deposits**

Lafayette Ambassador Bank secures the deposits of public funds under the Act.

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 or the Federal Reserve Bank of Philadelphia.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

### 4. CAPITAL ASSETS

A summary of changes in capital assets follows:

	January 1, 2012	Additions and Transfers In	Disposals and Transfers Out	December 31, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,757,780	\$ -	\$ (5,000)	\$ 6,752,780
Construction in progress	3,532,705	89,330	(2,962,486)	659,549
Total capital assets not being depreciated	<u>10,290,485</u>	<u>89,330</u>	<u>(2,967,486)</u>	<u>7,412,329</u>
Capital assets being depreciated:				
Buildings and related improvements	26,710,635	3,628,882	(59,572)	30,279,945
Improvements other than buildings	41,090,357	4,831,163	-	45,921,520
Furniture, machinery, and equipment	36,244,149	3,153,351	(1,148,628)	38,248,872
Infrastructure	24,248,882	1,803,077	-	26,051,959
Total capital assets being depreciated	<u>128,294,023</u>	<u>13,416,473</u>	<u>(1,208,200)</u>	<u>140,502,296</u>
Less accumulated depreciation for:				
Buildings and related improvements	(21,430,393)	(974,873)	51,215	(22,354,051)
Improvements other than buildings	(25,455,803)	(1,944,176)	-	(27,399,979)
Furniture, machinery, and equipment	(25,447,342)	(2,356,785)	948,771	(26,855,356)
Infrastructure	(8,343,730)	(1,663,562)	-	(10,007,292)
Total accumulated depreciation	<u>(80,677,268)</u>	<u>(6,939,396)</u>	<u>999,986</u>	<u>(86,616,678)</u>
Total capital assets being depreciated, net	<u>47,616,755</u>	<u>6,477,077</u>	<u>(208,214)</u>	<u>53,885,618</u>
Governmental activities capital assets, net	<u>\$ 57,907,240</u>	<u>\$ 6,566,407</u>	<u>\$ (3,175,700)</u>	<u>\$ 61,297,947</u>

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

	January 1, 2012	Additions and Transfers In	Disposals and Transfers Out	December 31, 2012
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,980,542	\$ -	\$ -	\$ 1,980,542
Construction in progress	2,153,061	4,940,001	(1,499,071)	5,593,991
Total capital assets not being depreciated	4,133,603	4,940,001	(1,499,071)	7,574,533
Capital assets being depreciated:				
Land improvements	1,100,349	-	-	1,100,349
Building and fixtures	13,418,010	285,299	(4,340)	13,698,969
Improvements other than buildings	192,115,781	3,660,493	-	195,776,274
Furniture, machinery, and equipment	5,052,401	151,896	(674,074)	4,530,223
Vehicles	4,114,810	267,244	(45,761)	4,336,293
Office equipment	342,586	11,663	(9,570)	344,679
Total capital assets being depreciated	216,143,937	4,376,595	(733,745)	219,786,787
Less accumulated depreciation for:				
Land improvements	(906,317)	(29,029)	-	(935,346)
Building and fixtures	(11,987,912)	(214,752)	4,340	(12,198,324)
Improvements other than buildings	(100,635,038)	(5,990,774)	-	(106,625,812)
Furniture, machinery, and equipment	(4,555,441)	(168,729)	674,074	(4,050,096)
Vehicles	(3,464,673)	(237,537)	45,761	(3,656,449)
Office equipment	(318,555)	(6,882)	7,420	(318,017)
Total accumulated depreciation	(121,867,936)	(6,647,703)	731,595	(127,784,044)
Total capital assets being depreciated, net	94,276,001	(2,271,108)	(2,150)	92,002,743
Business-type activities capital assets, net	\$ 98,409,604	\$ 2,668,893	\$ (1,501,221)	\$ 99,577,276

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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Depreciation expense was charged to governmental activities as follows:

General government	\$ 2,796
Administrative	52,341
Community development	271,319
Parks and public property	1,455,299
Public works	3,325,939
Police	1,266,505
Fire	461,465
Library	103,732
	<u>6,939,396</u>
	<u>\$ 6,939,396</u>

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

Water Fund	\$ 4,856,311
Sewer Fund	1,664,040
Municipal Golf Fund	92,986
Transfer in	34,366
	<u>6,647,703</u>
	<u>\$ 6,647,703</u>

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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	January 1, 2012	Additions and Transfers In	Deletions and Transfers Out	December 31, 2012
Parking Authority:				
Capital assets, not being depreciated:				
Land	\$ 554,380	\$ -	\$ -	\$ 554,380
Construction in progress	270,841	5,283	(270,841)	5,283
Total capital assets, not being depreciated	825,221	5,283	(270,841)	559,663
Capital assets, being depreciated:				
Parking garages	26,614,054	20,630	-	26,634,684
Furniture and fixtures	560,292	642,442	-	1,202,734
Automobiles	269,593	82,621	(37,081)	315,133
Leasehold and parking lot improvements	21,860	-	-	21,860
Total capital assets, being depreciated	27,465,799	745,693	(37,081)	28,174,411
Less accumulated depreciation	(10,895,936)	(1,043,547)	37,081	(11,902,402)
Total capital assets, being depreciated, net	16,569,863	(297,854)	-	16,272,009
Total capital assets, net	\$ 17,395,084	\$ (292,571)	\$ (270,841)	\$ 16,831,672

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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	January 1, 2012	Additions and Transfers In	Deletions and Transfers Out	December 31, 2012
Library:				
Capital assets, not being depreciated:				
Land	\$ -	\$ 5,000	\$ -	\$ 5,000
Total capital assets, not being depreciated	-	5,000	-	5,000
Capital assets, being depreciated:				
Buildings and related improvements	-	59,572	-	59,572
Furniture, machinery, and equipment	1,497,704	-	(584,952)	912,752
Total capital assets, being depreciated	1,497,704	59,572	(584,952)	972,324
Less accumulated depreciation	(1,381,317)	(88,315)	584,952	(884,680)
Total capital assets, being depreciated, net	116,387	(28,743)	-	87,644
Total capital assets, net	\$ 116,387	\$ (23,743)	\$ -	\$ 92,644

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 5. INTERFUND RECEIVABLE AND PAYABLES BALANCES

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2012 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental funds:		
General Fund	\$ 1,303,326	\$ 4,386,421
Non-Utility Capital Improvements Fund	1,368,718	65,570
Other Non-Major Governmental Funds	107,084	-
Proprietary funds:		
Water Fund	188,130	1,157,836
Sewer Fund	-	133,130
Other Non-Major Enterprise Fund	10,570	151,850
Internal Service Fund	179	-
Agency Funds	<u>2,916,800</u>	<u>-</u>
Total	<u>\$ 5,894,807</u>	<u>\$ 5,894,807</u>

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 6. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2012 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ 2,705,925	\$ 8,577,620
Non-Utility Capital Improvements Fund	1,421,209	1,048,183
Debt Service Fund	7,947,200	-
Other Non-Major Governmental Funds	1,043,465	386,071
Proprietary funds:		
Water Fund	-	300,000
Sewer Fund	-	2,805,925
Total	<u>\$ 13,117,799</u>	<u>\$ 13,117,799</u>

Transfers are used to (1) fulfill budgetary transfer requirements, and (2) move receipts restricted to debt service from the funds collecting the receipts as debt service payments become due.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

### 7. LONG-TERM OBLIGATIONS

#### Bonds and Notes Payable

A summary of long-term bonds and notes payable of the City at December 31, 2012 and principal and interest maturities through the next five years and thereafter, respectively, are as follows:

	Governmental Activities	Business-type Activities			Total
		Water Fund	Sewer Fund	Municipal Golf Fund	
Outstanding at beginning of year	\$ 90,361,000	\$ 105,350,320	\$ 5,035,070	\$ 328,000	\$ 201,074,390
Issuance of debt	-	1,057,299	9,428,995	-	10,486,294
Repayment of debt	(3,090,000)	(5,741,235)	(2,913,729)	(60,000)	(11,804,964)
	87,271,000	100,666,384	11,550,336	268,000	199,755,720
Plus unamortized bond premium	46,672	1,321,152	14,738	-	1,382,562
Less unamortized bond discount	(332,348)	(72,803)	(134,315)	-	(539,466)
Less unamortized deferred costs of refunding	(111,336)	(335,919)	(94,275)	-	(541,530)
Outstanding at end of year	<u>\$ 86,873,988</u>	<u>\$ 101,578,814</u>	<u>\$ 11,336,484</u>	<u>\$ 268,000</u>	<u>\$ 200,057,286</u>

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

	Discretely Presented	
	Component Units	
	Parking Authority	Redevelopment Authority
Outstanding at beginning of year	\$ 13,144,909	\$ 20,234,871
Issuance of debt	800,000	8,884,605
Repayment of debt	(2,339,081)	(2,388,679)
	11,605,828	26,730,797
Less unamortized deferred costs of refunding	(673,028)	-
Outstanding at end of year	\$ 10,932,800	\$ 26,730,797

Year	Governmental Activities			Water Fund		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 4,143,000	\$ 4,718,400	\$ 8,861,400	\$ 6,014,872	\$ 3,003,357	\$ 9,018,229
2014	4,328,000	4,535,026	8,863,026	8,715,440	2,755,022	11,470,462
2015	4,519,000	4,342,995	8,861,995	6,597,827	2,400,089	8,997,916
2016	4,470,000	4,137,917	8,607,917	6,911,238	2,126,943	9,038,181
2017	3,874,000	3,937,665	7,811,665	7,240,995	1,838,419	9,079,414
2018-2022	19,727,000	17,040,274	36,767,274	35,454,083	9,978,275	45,432,358
2023-2027	20,145,000	11,729,001	31,874,001	26,424,027	20,736,241	47,160,268
2028-2032	22,690,000	5,218,856	27,908,856	3,307,902	3,722,048	7,029,950
2033-2034	3,375,000	291,270	3,666,270	-	-	-
Totals	\$ 87,271,000	\$ 55,951,404	\$ 143,222,404	\$ 100,666,384	\$ 46,560,394	\$ 147,226,778

Year	Sewer Fund			Municipal Golf Fund		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 775,000	\$ 238,205	\$ 1,013,205	\$ 63,000	\$ 10,613	\$ 73,613
2014	821,549	257,327	1,078,876	66,000	8,118	74,118
2015	860,897	242,078	1,102,975	68,000	5,504	73,504
2016	877,203	224,785	1,101,988	71,000	2,812	73,812
2017	733,529	206,032	939,561	-	-	-
2018-2022	2,504,675	895,182	3,399,857	-	-	-
2023-2027	2,262,294	625,875	2,888,169	-	-	-
2028-2032	2,620,625	265,612	2,886,237	-	-	-
2033	94,564	1,145	95,709	-	-	-
Totals	\$ 11,550,336	\$ 2,956,241	\$ 14,506,577	\$ 268,000	\$ 27,047	\$ 295,047

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Year	Parking Authority			Year	Redevelopment Authority
	Principal	Interest	Total		Principal
2013	\$ 1,363,274	\$ 439,559	\$ 1,802,833	2013	\$ 3,600,797
2014	586,474	421,920	1,008,394	2014	2,310,000
2015	599,683	396,949	996,632	2015	2,390,000
2016	623,397	377,758	1,001,155	2016	2,475,000
2017	646,000	357,608	1,003,608	2017	2,555,000
2018-2022	3,039,000	1,450,693	4,489,693	2018-2020	13,400,000
2023-2027	2,833,000	859,590	3,692,590		
2028-2030	1,915,000	176,620	2,091,620		
Totals	\$ 11,605,828	\$ 4,480,697	\$ 16,086,525		\$ 26,730,797

Total principal and interest for the primary government due through maturity is \$305,250,806.

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, 2012

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Long-term obligations payable at December 31, 2012 are as follows:

Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2012</u>
Bethlehem Authority Federally Taxable Lease Revenue Bonds, Series of 2001, due in annual installments of \$365,000 to \$825,000 through December 1, 2026; interest rates vary from 5.85% to 6.60%.	\$ 365,000	\$ 7,910,000
General Obligation Bonds, Series B of 2004, due in annual installments of \$1,455,000 to \$1,735,000 through November 1, 2034; interest rates vary from 4.10% to 5.70%.	1,455,000	26,660,000
Bethlehem Authority Guaranteed Lease Revenue Bonds, Series of 2004, due in annual installments of \$775,000 to \$840,000 through October 1, 2015; interest rates vary from 4.00% to 4.40%.	775,000	2,420,000
General Obligation Bonds, Series A of 2005, due in annual installments of \$15,000 to \$285,000 through October 2020; interest rates vary from 3.25% to 4.00%.	15,000	1,800,000
General Obligation Bonds, Series B of 2005, due in one installment of \$395,000 in October 2016; interest rates vary from 3.40% to 3.80%.	-	395,000
General Obligation Notes, Series of 2007, due in annual installments of \$1,453,000 to \$356,000 through August 2022; interest rates fixed at 3.65% through August 2017.	1,453,000	4,253,000
General Obligation Notes, Series of 2008, due in annual installments of \$705,000 to \$382,000 through August 2016; interest rates of 3.96%.	-	1,798,000

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2012</u>
General Obligation Bonds, Series of 2010, due in annual installments of \$315,000 to \$360,000 through August 2024; interest rates vary from 1.50% to 4.00%.	-	3,540,000
General Obligation Notes, Series C of 2010, due in annual installments of \$5,000 to \$825,000 through August 2020; interest rate of 3.55%.	5,000	6,035,000
Bethlehem Authority Guaranteed Lease Revenue Bonds, Series A of 2011, due in annual installments of \$70,000 to \$1,135,000 through December 1, 2028; interest rates vary from 5.125% to 6.125%.	70,000	17,800,000
General Obligation Refunding Bonds, Series A of 2011, due in annual installments of \$1,035,000 to \$1,505,000 through December 2032; interest rate of 6.50%.	-	7,860,000
General Obligation Refunding Notes, Series B of 2011, due in annual installments of \$5,000 to \$1,195,000 through December 2032; interest rate of 6.50%.	5,000	6,800,000
Total Governmental Activities	<u>\$ 4,143,000</u>	<u>\$ 87,271,000</u>

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Business-Type Activities: Water Fund:	<u>Current Portion</u>	<u>Balance at December 31, 2012</u>
Bethlehem Authority Guaranteed Water Revenue Note, Series of 1997, due in annual installments of \$650,000 to \$1,260,000 through August 1, 2027; interest rates are variable. The interest rate at December 31, 2012 was 2.20%.	\$ 650,000	\$ 13,850,000
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%.	-	25,741,011
Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2004, due in annual installments of \$3,700,000 to \$5,410,000 through November 15, 2021; interest rates vary from 3.00% to 4.60%	3,700,000	40,735,000
1998 Pennvest loan payable in monthly installments of \$116,147, including interest at 3.20% through 2018.	1,195,872	6,727,652
General Obligation Note, Series of 2007, due in annual installments of \$49,000 to \$69,000 through August 2022; interest rates fixed at 3.65% through August 2017.	49,000	593,000
Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2010, due in annual installments of \$420,000 to \$940,000 through November 15, 2028; interest rates vary from 2.00% to 4.25%.	420,000	10,600,000

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Business-Type Activities:	Current	Balance at
Water Fund:	<u>Portion</u>	<u>December 31, 2012</u>
<p>General Obligation Note, Series A of 2010, is a draw-down construction loan. The outstanding principal is due in full on or before December 15, 2014. Interest on the outstanding principal is due quarterly at 3.92%. At December 31, 2012, the City had drawn down \$2,419,721 of the \$8,100,000 available under the note.</p>	-	2,419,721
<p>    Total Water Fund</p>	<u>6,014,872</u>	<u>100,666,384</u>
Sewer Fund:		
<p>General Obligation Bonds, Series A of 2005, due in annual installments of \$95,000 to \$125,000 through October 2020; interest rates vary from 3.25% to 4.00%.</p>	95,000	870,000
<p>General Obligation Bonds, Series of 2010, due in annual installments of \$365,000 to \$140,000 through August 1, 2018; interest rates vary from 1.50% to 3.50%.</p>	365,000	1,900,000
<p>2012 Guaranteed Revenue Note is a draw-down construction note. Interest on the outstanding principal is due monthly and varies from 1.51% to 3.018%. Monthly principal and interest payments begin in May 2014. At December 31, 2012, the City had drawn down \$1,970,336 of the \$9,429,730 available under the note.</p>	-	1,970,336

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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Business-type Activities:	Current	Balance at
Sewer Fund:	Portion	December 31, 2012
General Obligation Bonds, Series of 2012, due in annual installments of \$315,000 to \$430,000 through October 1, 2032; interest rates vary from 0.650% to 3.375%.	<u>315,000</u>	<u>6,810,000</u>
Total Sewer Fund	<u>775,000</u>	<u>11,550,336</u>
 Municipal Golf Fund:		
General Obligation Note, Series of 2008, due in annual installments of \$63,000 to \$71,000 through August 2016; interest rate of 3.96%.	<u>63,000</u>	<u>268,000</u>
Total Business-Type Activities	<u>\$ 6,852,872</u>	<u>\$ 112,484,720</u>

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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Component Units:	Current	Balance at
Parking Authority:	<u>Portion</u>	<u>December 31, 2012</u>
General Obligation Bond Series C of 2003, due in annual installments of \$280,000 in October 2013 to \$575,000 in October 2030, interest rates range from 3.60% to 4.75%.	\$ 280,000	\$ 7,255,000
Parking Revenue Note Series of 2004, due in annual installments of \$210,000 to \$280,000, maturing in July 2020. Interest-only payments due semiannually through February 2008 at a rate of 3.5%, increasing to 60% of the ten-year average prime beginning August 2011 (1.95% at December 31, 2012); secured by future revenues of the Authority.	210,000	1,955,000
Term Note of 2009, due in annual installments of \$68,000 in December 2013 to \$136,000 in December 2029, interest rates are fixed at 4.8% for a period of sixty months; thereafter, the interest rate is at 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.	68,000	1,574,000
Loan payable, \$500 per month, including interest at 3.74% through December 31, 2016, unsecured loan.	5,274	21,828
Loan payable, including interest at 4.25% through September 2013, unsecured loan.	800,000	800,000
Total Parking Authority	<u>\$ 1,363,274</u>	<u>\$ 11,605,828</u>

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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Redevelopment Authority:	<u>Current Portion</u>	<u>Balance at June 30, 2012</u>
Note Payable, due in monthly installments through 2013; interest rate is variable.	\$ 1,365,797	\$ 1,365,797
TIF Bonds, Series of 2010, due in annual installments of \$2,235,000 to \$2,605,000 through December 2019, with a final payment of \$5,690,000 due in June 2020; interest rates fixed at 3.42% through December 2017, thereafter, rates are variable, with a 6.00% cap.	<u>2,235,000</u>	<u>25,365,000</u>
Total Redevelopment Authority	<u>\$ 3,600,797</u>	<u>\$ 26,730,797</u>

### Defeased Debt

On March 31, 2011, the City advance refunded \$3,875,000 aggregate principal amount of a portion of the General Obligation Bonds, Series of 2010. The City has invested monies in escrow with the Trustee sufficient to pay the outstanding defeased portion of the Series of 2010 to maturity. As of December 31, 2012, \$940,000 of Series of 2010 is outstanding.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### Other Changes in Long-Term Debt

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

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012
Governmental activities:				
Accrued vacation and other compensated absences	\$ 3,641,590	\$ 533,953	\$ -	\$ 4,175,543
Capital leases	322,154	2,729,428	(276,251)	2,775,331
	<u>\$ 3,963,744</u>	<u>\$ 3,263,381</u>	<u>\$ (276,251)</u>	<u>\$ 6,950,874</u>
Business-type activities:				
Accrued vacation and other compensated absences	\$ 763,370	\$ 85,212	\$ -	\$ 848,582
Capital leases	37,297	131,452	(41,135)	127,614
	<u>\$ 800,667</u>	<u>\$ 216,664</u>	<u>\$ (41,135)</u>	<u>\$ 976,196</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, 2012, the net book value of the equipment and vehicles held under capital leases and included in capital assets was \$2,929,768 for governmental activities and \$174,412 for business-type activities.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

As of December 31, 2012, future minimum payments were as follows:

Year	Governmental Activities	Business-Type Activities
2013	\$ 416,633	\$ 43,294
2014	342,254	35,243
2015	194,761	28,261
2016	213,819	28,261
2017	218,289	-
2018-2022	1,188,894	-
2023-2026	1,016,987	-
Total commitment under capital leases	3,591,637	135,059
Less amount representing interest	816,306	7,445
Present value of future minimum lease payments	2,775,331	127,614
Less current portion	304,015	39,901
Long-term portion	\$ 2,471,316	\$ 87,713

### *Parking Authority*

The Parking Authority has entered into multiple capital lease agreements for parking equipment and vehicles. The total cost of the equipment and vehicles under capital lease was \$698,661, of which \$14,015 represented equipment purchased from the Parking Authority by a third party. The cost and accumulated depreciation of the leased equipment and vehicles by the Parking Authority were \$684,646 and \$123,602, respectively, at December 31, 2012. Amortization of the leased equipment and vehicles is included in depreciation expense. The future minimum lease payments required are as follows:

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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<u>Year</u>	<u>Amount</u>
2013	\$ 153,917
2014	160,975
2015	153,203
2016	146,367
2017	<u>24,218</u>
Total minimum lease payments	638,680
Less amount representing interest at 4.39%	<u>54,341</u>
Present value of minimum lease payments	584,339
Less current portion	<u>131,801</u>
Long-term portion	<u><u>\$ 452,538</u></u>

### 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. As of January 1, 2013, the Library employees withdrew from the plan and the Parking Authority is in the process of obtaining Commonwealth of Pennsylvania approval to withdraw from the plan into their own PMRS plan. PMRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR) which may be obtained by writing to Pennsylvania Municipal Retirement System, P. O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968. The combining information for the plans is as follows:

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

	Firemen Pension Fund	Police Pension Fund	Officers' and Employees' Pension Fund	Employee Benefit Trust Fund Total
<b>Assets</b>				
Cash and cash equivalents	\$ 204,903	\$ 269,790	\$ 25,307	\$ 500,000
Interest and dividends receivable	152,761	201,234	18,867	372,862
Investments	48,680,683	64,096,262	6,012,440	118,789,385
<b>Total Assets</b>	<b>\$ 49,038,347</b>	<b>\$ 64,567,286</b>	<b>\$ 6,056,614</b>	<b>\$ 119,662,247</b>
<b>Net Position</b>				
Restricted for employees' retirement benefits	\$ 49,038,347	\$ 64,567,286	\$ 6,056,614	\$ 119,662,247
<b>Total Net Position</b>	<b>\$ 49,038,347</b>	<b>\$ 64,567,286</b>	<b>\$ 6,056,614</b>	<b>\$ 119,662,247</b>
<b>Additions:</b>				
Employee contributions	\$ 537,106	\$ 779,766	\$ 1,751	\$ 1,318,623
Employer contributions	1,492,989	2,520,217	432,315	4,445,521
Investment income	1,674,498	2,199,983	210,286	4,084,767
Realized and unrealized gains, net	2,715,434	3,570,879	351,022	6,637,335
Total additions	6,420,027	9,070,845	995,374	16,486,246
<b>Deductions:</b>				
Benefits paid	3,356,430	5,098,570	1,071,450	9,526,450
Administrative costs	296,213	372,834	36,211	705,258
Total deductions	3,652,643	5,471,404	1,107,661	10,231,708
<b>Change in Net Position</b>	2,767,384	3,599,441	(112,287)	6,254,538
<b>Net Position:</b>				
Beginning of year	46,270,963	60,967,845	6,168,901	113,407,709
End of year	\$ 49,038,347	\$ 64,567,286	\$ 6,056,614	\$ 119,662,247

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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Benefit provisions and their amendments are authorized by the separate Pension Boards for the Police, Firemen, and O&E 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, 2011:

	Police	Firemen	Officers' and Employees'	PMRS
Covered Employees	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
Active plan members	159	110	2	398
Numbers of retirees and beneficiaries receiving benefits	155	83	57	235
Terminated employees entitled to deferred benefits	-	-	-	10

### 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, 2011. 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.

Police and firemen are required to contribute 7% and 8% of covered payroll, respectively, plus \$1 per month to their respective pension plans. The O&E 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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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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, 2012, the City made its annual required contribution of \$2,520,217, \$1,492,989, and \$432,315 for the City's Police, Firemen, and O&E Defined Benefit Pension Plans, respectively. The City's net pension (asset) obligation for the City's Police, Firemen, and O&E Defined Benefit Pension Plans at December 31, 2010, 2011, and 2012 is not significant.

The pension expenditures/expenses 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, 2011 actuarial valuations 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 4.5% per year, including an inflation component of 3.5%, 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 120% or less than 80% of market value. The Police and Firemen unfunded actuarial accrued liabilities (UAAL) are being amortized over 18 and 16 years, respectively, utilizing the level dollar closed method and the O&E's UAAL is being amortized over two years utilizing the level dollar closed method.

The PMRS plan requires contributions of 7.5% from plan participants. The January 1, 2011 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 are based on a salary range of 3.7% - 6.4%. The actuarial value of assets was based on market value as determined by the trustee. The PMRS unfunded actuarial accrued liability is being amortized over nine years, utilizing the annual funding adjustment equal to 10% of negative UAAL. For the year ended December 31, 2012, the City made the \$2,939,786 annual required contribution for the PMRS plan.

### **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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

(in thousands)						
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)
<b>Police:</b>						
1/1/2011	\$ 63,718	\$ 83,930	\$ 20,212	76%	\$ 11,565	175%
<b>Firemen:</b>						
1/1/2011	\$ 48,627	\$ 62,441	\$ 13,814	78%	\$ 7,318	189%
<b>Officers and Employees:</b>						
1/1/2011	\$ 7,121	\$ 8,531	\$ 1,410	83%	\$ 120	1175%
<b>PMRS:</b>						
1/1/2011	\$ 88,255	\$ 111,163	\$ 22,908	79%	\$ 22,034	104%

### **Investments That Represent Five Percent or More of Plan Net Position**

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, 2012, the City does not hold more than five percent of the Plan's investments in any one issuer.

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

### Plan Descriptions

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

#### Police:

Article XI of the Collective Bargaining Agreement between the City and the Fraternal Order of Police, Star Lodge #20, effective January 1, 2011, 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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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

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

Benefits: The City will provide medical and prescription drug coverage for the retiree and spouse until Medicare eligibility. The City's maximum monthly contribution for health insurance coverage for each retiree is \$340 in 2012. 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, 2011, establishes retirees' eligibility for post-retirement medical benefits. Article VII Section 4 of the personnel manual establishes retirees' eligibility for post-retirement life-insurance benefits.

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

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

Benefits: The City will provide medical and prescription drug coverage for the retiree and spouse until Medicare eligibility. The City's maximum monthly contribution for health insurance coverage for each retiree is \$340 in 2012. 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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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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 X of the Collective Bargaining Agreement between the City and the Service Employees International Union, Local 32BJ, Mid-Atlantic District, effective January 1, 2010, 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, 2012, the City contributed \$839,156 to the OPEB plan.

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### Police:

Police would pay any additional premiums above the City's contribution of \$340. For the year ended December 31, 2012, police retirees contributed \$126,668 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, 2012, firefighter retirees contributed \$120,640 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, 2012, non-uniformed union and non-union retirees contributed \$216,861 toward the cost of their plans.

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

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

### 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

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2012
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Interest rate	4.5%
Salary increases	4.5%
Medical inflation:	
2012	7.5%
2013	7.0%
2014	6.5%
2015	6.0%
2016	5.5%
2017 and later	5.3% - 4.2%
Amortization method	Level dollar, open period
Amortization period	30 years

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

### 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, 2012 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 1,233,479	\$ 245,247	\$ 1,478,726
Interest on net OPEB obligation	114,991	24,531	139,522
Adjustment to ARC	(157,092)	(33,252)	(190,344)
Annual OPEB cost	1,191,378	236,526	1,427,904
Contribution made	(706,025)	(133,131)	(839,156)
Change in Net OPEB obligation	485,353	103,395	588,748
Net OPEB obligation, beginning	2,555,543	544,947	3,100,490
Net OPEB obligation, ending	<u>\$ 3,040,896</u>	<u>\$ 648,342</u>	<u>\$ 3,689,238</u>

### Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2012	\$ 1,427,904	58.8%	\$ 3,689,238
2011	1,371,945	54.5%	3,100,490
2010	1,383,435	49.3%	2,476,515

### 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)
1/1/2012	\$ -	\$ 14,378,843	\$ 14,378,843	0.00%	\$ 37,649,864	38.19%

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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

### **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 \$194,302 to the plan during 2012. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

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

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

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

#### **Litigation**

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

#### **Risk Management**

The City is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages in 2012. Settlement amounts have not exceeded insurance coverages for the current year or three prior years.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### **Construction**

The City is committed in various construction contracts in the total amount of \$6,347,304 at December 31, 2012.

The Library is committed in various construction/purchasing contracts in the total amount of \$224,155 at December 31, 2012.

### **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%. In August 2012, the line of credit was renewed, and if no demand is made, will expire on August 31, 2013. At December 31, 2012, the entire balance of \$200,000 was outstanding on the line of credit. This amount was paid back in January 2013.

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

During the year ended December 31, 2012, 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 56 money to pay for Act 78 expenditures. The City intends to return the excess costs, in the amount of \$1,568,305, to the Act 56 account from the Act 78 account and/or the General Fund. The City also implemented a dedicated 911 tax in 2013 which is estimated to generate \$1.1 million in 2013.

In past years, the City advanced itself earned income tax (EIT) receipts that were being held on behalf of other governments and owed approximately \$2.9 million back to the EIT account at December 31, 2012. Beginning January 1, 2011, Keystone Collections Group is collecting the City's EIT funds; therefore, the City can no longer advance or borrow EIT. Also, as of July 26, 2013, the City has \$2,576,600 in outstanding claims to other municipalities. The City is awaiting payment and/or responses which can be used towards the shortfall. There are additional claims that still need to be processed, both from the City to other municipalities and from other municipalities to the City.

## **12. LETTER OF CREDIT NOTE**

In December 2011, the City renewed an irrevocable standby letter of credit through Wells Fargo in the amount of \$1,865,000. In March 2012, this letter of credit was increased to \$2,215,000. The beneficiary on this letter of credit is Pennsylvania Manufacturers'

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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Association Insurance Company (PMA). According to the terms of the letter of credit, the beneficiary may, at any time, draw upon this letter of credit, up to the full amount. Commission fees on this letter of credit are paid by the City at a rate of 1.25%. The letter of credit automatically renews for a one-year period on December 31 of each year, unless written notification of termination is received 60 days prior to the expiration date. At December 31, 2012, there were no amounts borrowed under the letter of credit.

### **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 89% of the total taxes collected by the City in 2012. 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. RELATED PARTY TRANSACTIONS**

The City provided services to a company in which a Council member is an officer and, as of December 31, 2011, the company owed the City Approximately \$127,000. During the year ended December 31, 2012, the City wrote off this receivable balance.

The City provided enterprise zone loans to a company in which several high-level City employees are members of the company's Board of Directors and, as of December 31, 2012, the company owes the City \$794,875. The loan receivables are recorded in the Community Development Block Grant Fund.

During 2012, a company in which several high-level City employees are members of the company's Board of Directors donated capital assets totaling \$494,081 related to the City's Main Street Project.

### **15. NEGATIVE FUND BALANCE AND NET POSITION**

#### **911 Fund**

The 911 Fund had a deficit balance of \$1,447,647 at December 31, 2012. During the year ended December 31, 2012, the City transferred approximately \$755,000 from the General

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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Fund to the 911 Fund as a way to begin addressing the deficit balance. In 2013, the City implemented a dedicated 911 tax which is estimated to generate \$1.1 million for 2013.

### **Water Fund**

The Water Fund had a deficit balance of \$802,069 at December 31, 2012. The negative net position in the water fund is largely due to the depreciation of assets outpacing new capital investment in the water system, and the austerity that this requires, the City and the Bethlehem Authority are working on a long-term restructuring to deal with this issue. The restructuring is anticipated to occur in 2013.

## **16. SUBSEQUENT EVENTS**

In April 2013, the City issued General Obligation Bonds, Series A of 2013, in the amount of \$5,425,000, for various capital projects of the City.

In April 2013, the City issued Federally Taxable General Obligation Refunding Bonds, Series B of 2013, in the amount of \$8,265,000, for the current refunding of the Bethlehem Authority Guaranteed Federally Taxable Lease Revenue Bonds, Series of 2001.

On April 5, 2013, the Parking Authority entered into an agreement to purchase real estate at a purchase price of \$85,000. The purchase of the property is in connection with future plans to build a new parking garage on the south side of the City. Settlement related to the agreement to purchase the real estate took place June 28, 2013.

On May 31, 2013, the Parking Authority entered into a Grant Anticipation Note, Series of 2013, in the amount of \$5,000,000, for capital projects.

On June 13, 2013, the Parking Authority purchased real estate from the City, at a purchase price of \$1,200,000. On June 28, 2013, the Parking Authority purchased four additional real estate properties at a total purchase price of \$605,000.

In December 2012, the Redevelopment Authority issued Tax Increment Revenue Bonds, Series of 2012, in the amount of \$10,000,000, for various capital projects.

In March 2013, the Redevelopment Authority issued Tax Increment Revenue Bonds, Series of 2013, in the amount of \$3,260,000, for various capital projects.

In May 2013, the City purchased the assets of the East Allen Township Municipal Authority for \$1.

**Required Supplementary  
Information**

# CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 31,661,526	\$ 31,661,526	\$ 32,841,636	\$ 1,180,110
Licenses and permits	2,075,000	2,075,000	2,324,695	249,695
Intergovernmental	7,257,056	7,499,152	6,890,866	(608,286)
Departmental earnings	7,014,925	7,014,925	6,581,618	(433,307)
Fines and forfeitures	540,000	540,000	490,821	(49,179)
Investment income	-	-	(8,535)	(8,535)
Municipal recreation	505,000	505,000	490,014	(14,986)
Host fees	9,375,000	9,375,000	9,671,366	296,366
Other operating revenues	729,000	729,000	834,055	105,055
Miscellaneous	2,225,966	2,225,966	1,133,871	(1,092,095)
Total revenues	<u>61,383,473</u>	<u>61,625,569</u>	<u>61,250,407</u>	<u>(375,162)</u>
<b>Expenditures:</b>				
Current:				
General government	906,483	906,483	885,178	21,305
Administration	1,838,557	1,838,557	1,719,077	119,480
Community development	5,186,684	5,428,780	5,020,415	408,365
Parks and public property	3,788,127	3,763,127	3,620,629	142,498
Public works	6,019,374	6,019,374	5,527,812	491,562
Police	13,021,398	13,257,588	12,644,024	613,564
Fire	9,793,913	9,818,913	9,798,837	20,076
General	15,520,407	15,284,217	15,199,185	85,032
Civic	113,270	113,270	107,677	5,593
Library	1,277,000	1,277,000	1,277,000	-
Debt service:				
Principal	2,150,000	2,150,000	2,410,000	(260,000)
Interest	4,090,541	4,090,541	4,193,112	(102,571)
Total expenditures	<u>63,705,754</u>	<u>63,947,850</u>	<u>62,402,946</u>	<u>1,544,904</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(2,322,281)</u>	<u>(2,322,281)</u>	<u>(1,152,539)</u>	<u>1,169,742</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	3,891,527	3,891,527	3,926,493	34,966
Transfers out	(1,569,246)	(1,569,246)	(3,618,511)	(2,049,265)
Total other financing sources (uses)	<u>2,322,281</u>	<u>2,322,281</u>	<u>307,982</u>	<u>(2,014,299)</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (844,557)</u>	<u>\$ (844,557)</u>

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2012

### 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	\$ 65,176,900	\$ 66,021,457
Agency fund borrowings	(6,256)	(1,000,000)
Other fund borrowings	650,761	(122,997)
Accrual adjustments:		
Receivables:		
Beginning of year	(11,811,075)	(206)
End of year	11,245,635	1,045
Due from/to:		
Beginning of year	6,989,648	1,505,921
End of year	(8,884,500)	(3,748,848)
Accrued liabilities:		
Beginning of year	(106,107)	(3,839,712)
End of year	-	4,179,794
Deferred revenues:		
Beginning of year	3,018,893	-
End of year	(2,542,155)	-
Reclassifications	2,086,462	2,086,462
GAAP basis	<u>\$ 65,818,206</u>	<u>\$ 65,082,916</u>

### 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

*Excess of Expenditures over Appropriations:*

	Appropriation	Expenditure
Debt service:		
Principal	\$ 2,150,000	\$ 2,410,000
Interest	4,090,541	4,193,112

Appropriations sufficient to provide for the excess expenditures were made available from other general fund functions.

# CITY OF BETHLEHEM, PENNSYLVANIA

## SCHEDULES OF FUNDING PROGRESS - PENSIONS

(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
<b>Police:</b>								
	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%
	1/1/2011	63,718	83,930 *		(20,212)	76%	11,565	-175%
<b>Firemen:</b>								
	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%
	1/1/2011	48,627	62,441 **		(13,814)	78%	7,318	-189%
<b>Officers and Employees:</b>								
	1/1/2007	9,001	10,178		(1,177)	88%	321	-367%
	1/1/2009	7,943	8,984		(1,041)	88%	241	-432%
	1/1/2011	7,121	8,531		(1,410)	83%	120	-1175%
<b>PMRS:</b>								
	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%
	1/1/2011	88,255	111,163 *****		(22,908)	79%	22,034	-104%

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

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

\* - Actuarial losses and actuarial assumption modifications for the 1/1/2011 valuation resulted in increases to the AAL of \$10.7 million.

\*\* - Actuarial losses and actuarial assumption modifications for the 1/1/2011 valuation resulted in increases to the AAL of \$6.5 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.

\*\*\*\*\* - Actuarial losses and actuarial assumption modifications for the 1/1/2011 valuation resulted in increases to the AAL of \$5.5 million.

See accompanying note to required supplementary information.

# CITY OF BETHLEHEM, PENNSYLVANIA

## SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTING ENTITIES - PENSIONS

(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
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%
2010	1,921	100%	1,137	100%	468	100%	2,861	100%
2011	2,534	100%	1,673	100%	456	100%	3,041	100%
2012	2,520	100%	1,493	100%	432	100%	2,940	100%

Note: Contributions include state pension aid.

See accompanying note to required supplementary information.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTE TO REQUIRED SUPPLEMENTARY PENSION INFORMATION

YEAR ENDED DECEMBER 31, 2012

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	1/1/2011	1/1/2011	1/1/2011	1/1/2011
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	18 years	16 years	2 years	9 years
Asset valuation method	5 year smoothed value with a maximum of 120% market value	5 year smoothed value with a maximum of 120% market value	5 year smoothed value with a maximum of 120% 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	4.5%	4.5%	4.5%	3.7%-6.4%

**CITY OF BETHLEHEM, PENNSYLVANIA**  
**POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**  
**YEAR ENDED DECEMBER 31, 2012**

**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	0.0%	\$ 32,868,661	43.4%
1/1/2010	-	13,369,049	13,369,049	0.0%	36,902,714	36.2%
1/1/2012	-	14,378,843	14,378,843	0.0%	37,649,864	38.2%

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

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2010	\$ 1,412,540	48.3%
2011	1,412,540	53.0%
2012	1,478,726	56.7%

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Valuation Date	January 1, 2012
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	4.5%
Projected Salary Increases	4.5%
Medical inflation:	
2012	7.5%
2013	7.0%
2014	6.5%
2015	6.0%
2016	5.5%
2017 and later	5.3% - 4.2%
Amortization Method	Level Dollar, Open Period
Amortization Period	30 Years

## **Supplementary Information**

# CITY OF BETHLEHEM, PENNSYLVANIA

## COMBINING BALANCE SHEET - OTHER NON-MAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2012

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 236,874	\$ 2,162,191	\$ 494,164	\$ 2,893,229
Receivables:				
Loans	-	2,204,397	-	2,204,397
Other	78,714	-	-	78,714
Due from other funds	107,084	-	-	107,084
Due from other governments	-	257,613	-	257,613
<b>Total Assets</b>	<b>\$ 422,672</b>	<b>\$ 4,624,201</b>	<b>\$ 494,164</b>	<b>\$ 5,541,037</b>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
Accounts payable and other accrued expenses	\$ 102,851	\$ 320,479	\$ 53,014	\$ 476,344
Accrued payroll	62,348	10,451	-	72,799
Accrued vacation and other compensated absences	19,578	18,071	-	37,649
Unearned revenues	1,685,542	4,275,200	-	5,960,742
<b>Total Liabilities</b>	<b>1,870,319</b>	<b>4,624,201</b>	<b>53,014</b>	<b>6,547,534</b>
<b>Fund Balance:</b>				
Restricted for:				
Public works	-	-	441,150	441,150
Unassigned	(1,447,647)	-	-	(1,447,647)
<b>Total Fund Balance</b>	<b>(1,447,647)</b>	<b>-</b>	<b>441,150</b>	<b>(1,006,497)</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 422,672</b>	<b>\$ 4,624,201</b>	<b>\$ 494,164</b>	<b>\$ 5,541,037</b>

# CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2012

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
<b>Revenues:</b>				
Intergovernmental revenues	\$ 2,585,233	\$ 2,460,693	\$ 1,433,311	\$ 6,479,237
Other charges	578,034	-	-	578,034
Investment income	-	59,705	2,285	61,990
Other	-	62,630	-	62,630
<b>Total revenues</b>	<b>3,163,267</b>	<b>2,583,028</b>	<b>1,435,596</b>	<b>7,181,891</b>
<b>Expenditures:</b>				
Current:				
Public works	-	-	1,155,838	1,155,838
Police	3,135,670	-	-	3,135,670
Program expenditures	-	2,583,028	-	2,583,028
<b>Total expenditures</b>	<b>3,135,670</b>	<b>2,583,028</b>	<b>1,155,838</b>	<b>6,874,536</b>
<b>Excess of Revenues Over Expenditures</b>	<b>27,597</b>	<b>-</b>	<b>279,758</b>	<b>307,355</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	1,043,465	-	-	1,043,465
Transfers out	(386,071)	-	-	(386,071)
<b>Total other financing sources (uses)</b>	<b>657,394</b>	<b>-</b>	<b>-</b>	<b>657,394</b>
<b>Net Change in Fund Balance</b>	<b>684,991</b>	<b>-</b>	<b>279,758</b>	<b>964,749</b>
<b>Fund Balance:</b>				
Beginning of year	(2,132,638)	-	161,392	(1,971,246)
End of year	\$ (1,447,647)	\$ -	\$ 441,150	\$ (1,006,497)