

City of Bethlehem, Pennsylvania

Financial Statements and Supplementary Information

Year Ended December 31, 2013 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2013

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YEAR ENDED DECEMBER 31, 2013

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Independent Auditor's Report

The Honorable Robert J. Donchez, Mayor, and
Honorable Members of City Council
City of Bethlehem, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bethlehem, Pennsylvania (City), as of and for the year ended December 31, 2013, 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 32 percent, 222 percent, and 58 percent, respectively, of the assets and deferred outflows of resources, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by another auditor 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 auditor. 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and the schedules of funding progress and employer contributions on pages i through xiv and 73 through 78 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 18, 2014, 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 18, 2014

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, 2013 and 2012. 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 \$2,038,331 in 2013 and decreased by \$1,091,225 in 2012.

In the City's governmental activities, net position decreased by \$1,188,969 in 2013 and increased by \$729,794 in 2012. In 2013, the decrease in net position is the result of increases in the annual pension MMO costs of approximately \$2.7 million in the General Fund. In 2012, the increase in net position is the result of increases in transfers from enterprise funds of \$825,001.

In the City's business-type activities, net position increased by \$3,227,300 in 2013 and decreased by \$1,821,019 in 2012. In 2013, the increase is the result of an increase in capital grant revenue of \$3,134,860 and charges for services of \$1,625,203. On the expenditure side, there was an increase in the annual pension MMO costs of \$514,401. In 2012, the decrease in net position is the result of an increase in transfers out of \$825,001.

Overview of the Financial Statements

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

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

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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

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

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

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

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

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

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

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the non-utility capital improvement fund, which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation captioned "Other Non-

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Major Governmental Funds". Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

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

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

Fiduciary Funds

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

Component Units

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-72 of this report.

Other Information

Required supplementary information can be found on pages 73-78 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 79-80 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

position. In the case of the City, liabilities exceeded assets and deferred outflows of resources at the close of the end of December 31, 2013 by \$21,453,688 and 2012 by \$23,492,019.

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	
	2013	2012 (Restated)	2013	2012 (Restated)	2013	2012 (Restated)
Current assets	\$ 26,713,592	\$ 19,861,884	\$ 12,568,261	\$ 9,599,749	\$ 39,281,853	\$ 29,461,633
Capital assets	59,332,952	61,297,947	103,870,800	99,577,276	163,203,752	160,875,223
Other assets	3,233,423	3,704,790	14,393,089	15,843,066	17,626,512	19,547,856
Total assets	\$ 89,279,967	\$ 84,864,621	\$ 130,832,150	\$ 125,020,091	\$ 220,112,117	\$ 209,884,712
Deferred charge on refunding	\$ 216,553	\$ 111,336	\$ 439,912	\$ 430,194	\$ 656,465	\$ 541,530
Current liabilities	\$ 20,162,794	\$ 20,337,240	\$ 17,205,091	\$ 11,492,057	\$ 37,367,885	\$ 31,829,297
Noncurrent liabilities	97,454,952	91,570,974	107,399,433	110,517,990	204,854,385	202,088,964
Total liabilities	\$ 117,617,746	\$ 111,908,214	\$ 124,604,524	\$ 122,010,047	\$ 242,222,270	\$ 233,918,261
Net investment in capital assets	\$ 23,119,914	\$ 26,510,760	\$ 942,247	\$ 2,686,388	\$ 24,062,161	\$ 29,197,148
Restricted	2,955,057	719,419	-	-	2,955,057	719,419
Unrestricted	(54,196,197)	(54,162,436)	5,725,291	753,850	(48,470,906)	(53,408,586)
Total net position (deficit)	\$ (28,121,226)	\$ (26,932,257)	\$ 6,667,538	\$ 3,440,238	\$ (21,453,688)	\$ (23,492,019)

Current assets in Governmental Activities increased approximately \$6.9 million. This was due to having \$3.0 million in unspent 2013 General Obligation Bond proceeds, as well as \$3.8 million in unspent capital lease proceeds for a street lighting project.

Noncurrent liabilities in Governmental Activities increased approximately \$5.9 million. This was due to the issuance of debt in the amount of \$13.7 million, net of debt principal payments (including refunded debt) of \$11.7 million as well as the issuance of a capital lease for \$3.8 million for a street lighting project.

Current liabilities in Business-type Activities increased approximately \$5.7 million. This was due to the Federally Taxable General Obligation Notes, Series C of 2013, in the amount of \$1.8 million, with repayment due in November 2014 and the General Obligation Note, Series A of 2010, in the amount of \$3.2 million, with repayment due in December 2014.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

City's Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 12,284,833	\$ 11,640,753	\$ 35,016,406	\$ 33,391,203	\$ 47,301,239	\$ 45,031,956
Operating grants and contributions	8,294,114	9,923,519	-	-	8,294,114	9,923,519
Capital grants	562,193	2,291,359	3,435,639	300,779	3,997,832	2,592,138
General revenues:						
Taxes	34,604,593	32,534,333	-	-	34,604,593	32,534,333
Investment earnings	52,992	68,533	619,621	440,594	672,613	509,127
Unrestricted grants	14,064,821	13,440,010	-	-	14,064,821	13,440,010
Sale of general capital assets	1,200,000	-	-	-	1,200,000	-
Total revenues	<u>71,063,546</u>	<u>69,898,507</u>	<u>39,071,666</u>	<u>34,132,576</u>	<u>110,135,212</u>	<u>104,031,083</u>
Expenses:						
General government	732,272	753,288	-	-	732,272	753,288
Administrative	1,064,735	1,125,834	-	-	1,064,735	1,125,834
Community development	5,008,438	5,295,376	-	-	5,008,438	5,295,376
Parks and public property	5,295,265	4,357,727	-	-	5,295,265	4,357,727
Public works	8,823,904	7,591,719	-	-	8,823,904	7,591,719
Police	16,717,915	16,547,660	-	-	16,717,915	16,547,660
Fire	10,731,519	10,584,358	-	-	10,731,519	10,584,358
General expenditures	18,033,049	15,866,181	-	-	18,033,049	15,866,181
Civic	101,340	107,691	-	-	101,340	107,691
Library	1,381,871	1,372,640	-	-	1,381,871	1,372,640
Program expenditures	2,136,911	2,583,028	-	-	2,136,911	2,583,028
Interest on long-term debt	5,126,585	5,082,833	-	-	5,126,585	5,082,833
Water fund	-	-	21,237,723	18,411,792	21,237,723	18,411,792
Sewer fund	-	-	10,138,886	9,626,502	10,138,886	9,626,502
Other non-major fund	-	-	1,566,468	1,539,363	1,566,468	1,539,363
Total expenses	<u>75,153,804</u>	<u>71,268,335</u>	<u>32,943,077</u>	<u>29,577,657</u>	<u>108,096,881</u>	<u>100,845,992</u>
Change in net position before transfers	(4,090,258)	(1,369,828)	6,128,589	4,554,919	2,038,331	3,185,091
Transfers	2,901,289	3,105,925	(2,901,289)	(3,105,925)	-	-
Change in net position	(1,188,969)	1,736,097	3,227,300	1,448,994	2,038,331	3,185,091
Net position:						
Beginning	(26,932,257)	(27,662,051)	3,440,238	5,261,257	(23,492,019)	(22,400,794)
Restatement	-	(1,006,303)	-	(3,270,013)	-	(4,276,316)
Ending	<u>\$ (28,121,226)</u>	<u>\$ (26,932,257)</u>	<u>\$ 6,667,538</u>	<u>\$ 3,440,238</u>	<u>\$ (21,453,688)</u>	<u>\$ (23,492,019)</u>

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

General expenditures in Governmental Activities increased approximately \$2.2 million. This was due to an increase in the annual pension MMO costs of \$2,797,706.

Taxes in Governmental Activities increased approximately \$2.1 million. This was due to a 7% increase in the City's real estate tax, which generated an additional \$1.5 million in tax revenue.

Capital grants in Governmental Activities decreased approximately \$1.7 million. Capital grants vary from year to year, but some of the larger ones reported for the year ended December 31, 2012 that were significantly less in 2013 were grants for additional work on the Greenway and an Energy Block Grant.

Charges for service in Business-type Activities increased approximately \$1.6 million. This was due to the sewer rate increase in 2012. The rate was in effect for approximately half the year in 2012 and 2013 saw a full year effect of the rate increase.

Capital grants in Business-type Activities increased approximately \$3.1 million. This was due to the acquisition of the East Allen Township system in 2013.

Governmental activities. Governmental activities decreased the City's net position by \$1,188,969 for the year ended December 31, 2013. Key elements of this increase are as follows:

- The decrease in net position is the result of increases in the annual pension MMO costs of approximately \$2.7 million in the General Fund.

Business-type activities. Business-type activities increased the City's net position by \$3,227,300 for the year ended December 31, 2013. Key elements of this change are as follows:

- The increase is the result of an increase in capital grant revenue of \$3,134,860 and charges for services of \$1,625,203.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Financial Analysis of the Major Funds

General Fund

Revenues of the General Fund totaled \$63,520,834 for the year ended December 31, 2013. The following represents a summary of general fund revenue, for the years ended December 31, 2013 and 2012 by source, along with changes from 2012:

	2013	2012	Change From 2012 to 2013	Percentage Change
Taxes	\$ 34,544,085	\$ 32,856,541	\$ 1,687,544	5.14%
Licenses and permits	2,819,303	2,328,576	490,727	21.07%
Intergovernmental revenues	6,653,039	6,689,279	(36,240)	-0.54%
Fines and forfeitures	455,041	490,821	(35,780)	-7.29%
Departmental earnings	7,075,745	6,648,284	427,461	6.43%
Other charges	1,138,367	962,212	176,155	18.31%
Municipal recreation	453,111	490,014	(36,903)	-7.53%
Investment income	13,703	5,326	8,377	157.29%
Host fee	9,574,998	9,432,179	142,819	1.51%
Other	793,442	479,621	313,821	65.43%
Total	\$ 63,520,834	\$ 60,382,853	\$ 3,137,981	5.20%

Taxes increased by \$1,687,544 from 2012 to 2013. The increase was due to a 7% increase in the City's real estate tax millage, which generated an additional \$1.5 million in tax revenue.

Licenses and permits increased by \$490,727 from 2012 to 2013. The increase was caused by several factors including a \$304,527 increase in building permits and a \$73,848 increase in occupancy permits. Revenue received from the cable franchise fees increased by \$44,251.

Departmental earnings increased \$427,461 from 2012 to 2013. The increase was largely due to the enactment of an amusement tax which generated revenue of \$340,287 in 2013, as well as an increase in alarm billings of \$107,805.

Other charges increased by \$176,155 from 2012 to 2013. The increase was due to an increase in funds received from the Bethlehem Parking Authority of \$206,253.

Other increased by \$313,821 from 2012 to 2013. The increase was due to remaining suburban stakeholder's payment being received in 2013 of \$294,668. The payment was past due and there were no payments received in 2012.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

General fund expenditures totaled \$57,525,654, which represents an increase of \$1,020,358 or 1.81% from 2012. The following represents a summary of general fund expenditures for the years ended December 31, 2013 and 2012, by function, along with changes from 2012:

	2013	2012	Change 2012 to 2013	Percentage Change
General government	\$ 737,961	\$ 701,424	\$ 36,537	5.21%
Administrative	1,052,299	1,030,795	21,504	2.09%
Community development	4,984,562	4,961,247	23,315	0.47%
Parks and public property	3,054,025	5,408,286	(2,354,261)	-43.53%
Public works	4,733,198	4,016,803	716,395	17.83%
Police	12,837,422	13,156,911	(319,489)	-2.43%
Fire	10,292,724	9,856,526	436,198	4.43%
General expenditures	17,995,620	15,743,566	2,252,054	14.30%
Civic	101,340	107,691	(6,351)	-5.90%
Library	1,277,000	1,277,000	-	0.00%
Debt service - principal	345,541	238,814	106,727	44.69%
Debt service - interest	113,962	6,233	107,729	1728.37%
Total	\$ 57,525,654	\$ 56,505,296	\$ 1,020,358	1.81%

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

- Parks and public property decreased by \$2,354,261 due to the recording of a capital lease for energy efficient upgrades in 2012.
- Public works increased by \$716,395 due to less job costs being allocated to other departments for work performed in-house in 2013.
- Police decreased by \$319,489 due to implementation of a dedicated 9-1-1 tax in 2013. Therefore, less general fund dollars were needed in 2013 to support the 9-1-1 system.
- Fire increased by \$436,198 due to an additional five firefighters hired through a SAFER grant as well as a contractual 3% increase.
- General expenditures increased by \$2,252,054 due to an increase in the annual pension MMO costs of \$2,708,265.
- Debt service principal expense increased by \$106,727 due to additional capital leases.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

- Debt service interest expense increased by \$107,729 due to additional capital leases.

General Fund Budgetary Highlights

The General Fund expenditure budget for fiscal year 2013 was approximately \$68.9 million. This was an increase of \$5.0 million over the previous year amended budget. There were no material amendments to the 2013 budget. Actual expenditures were approximately \$2.5 million less than budgeted. Community Development realized savings in personnel costs, contracts, and grants that were not fully spent in 2013 and carried over into 2014. Public Works realized savings in contracts and streetlight costs. General expenditures were lower than budgeted mostly due to a savings in commercial and medical insurance and social security.

Non-Utility Capital Improvements Fund

Cash and cash equivalents increased by approximately \$6.3 million. This was due to having \$3.0 million in unspent 2013 General Obligation Bond proceeds, as well as \$3.8 in unspent capital lease proceeds for a street lighting project.

Due from other funds decreased by approximately \$1.2 million. This was due to a transfer from the General Fund of \$1.2 million.

Intergovernmental revenues decreased by approximately \$1.3 million. Capital grants vary from year to year, but some of the larger ones reported for the year ended December 31, 2012 that were significantly less in 2013 were grants for additional work on the Greenway and an Energy Block Grant.

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, 2013, the net position - restricted for employees' retirement pension benefits was \$136,983,517. In 2004, the City issued a pension bond to fund the unfunded liability as of December 31, 2004. The average interest rate all inclusive with costs of the pension bond is 5.5%. The Fund returned 17.28% in 2013. The Fund returned an average of 8.65% 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, 2013 amounted to \$59,332,952 and \$103,870,800 (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 \$638,350 towards replacement of the communications consoles in the 9-1-1 Center.
- The City spent \$647,918 towards Phase II/III of the Greenway.
- The City spent \$369,000 towards a street milling machine.
- The City spent \$965,261 towards street overlays.

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

- The City spent \$4,557,287 on digester and waste activated sludge upgrades.
- The City spent \$629,450 on the design of a new solids drying facility and to replace belt filter presses.
- The City spent \$367,167 to replace roofing on the water filtration plant and garage.
- The City spent \$270,262 to replace water distribution infrastructure on Delaware Avenue.
- The City acquired the water system of East Allen Township.

Additional information on the City's capital assets can be found at Note 4 on pages 39-43.

Long-Term Debt

As of December 31, 2013, the City's net non-electoral debt of \$90,078,547, (net of deductions of \$24,680,183), is well below the legal limit of \$180,692,420. Additional information on the City's long-term debt can be found at Note 7 on pages 46-57 of this report.

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

Economic Outlook

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). Resort amenities continue to develop around gaming, which further strengthen Bethlehem's position as a destination. The 50,000-square-foot Sands

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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.

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. 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.

In December 2013, the City was awarded one of two City Revitalization and Improvement Zone (CRIZ) designations. Among the purposes of the CRIZ designation is to enable vacant or abandoned space to be developed for commercial use, thereby creating jobs, increasing personal incomes and growing state and local tax revenues. The CRIZ law enables the City (through a municipal authority) to pledge certain incremental taxes (other than real estate taxes) payable to the Commonwealth of Pennsylvania and local governments and generated within the CRIZ towards loan repayment in order to finance redevelopment. Currently, the CRIZ is approximately 130 acres and the City is exploring nine different development projects.

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 2014
528 N. New Street Apartments	1,825,000	Under Construction/Portions Complete
Central Park West	5,500,000	Under Construction/Portions Complete
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 Complete
St. Stanislaus South Side Lofts at Hayes St.	7,000,000	Under Construction / Portions Complete
Atlantic Street South Side Lofts	4,500,000	Under Construction/Portions Complete
Meadows Townhomes (16 Townhouses)	3,800,000	Under Construction/Portions Complete
Residential Subtotal	103,695,000	
Residential/Senior		
Cottages @ Monocacy Manor	4,500,000	Under Construction/Portions Complete
Turnberry Mews	10,000,000	Under Construction / Portions Complete
Residential / Senior Subtotal	14,500,000	

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Institutional		Status as of August 2014
East Stroudsburg University Extended Learning	400,000	Construction Complete 2014
Lehigh University Goodman Campus/Varsity House	2,762,532	Construction Complete 2014
Lehigh University/Williams Hall	16,800,000	Under Construction
Lehigh Valley Community Health Center	3,000,000	Construction Complete 2014
Lehigh Valley Hospital-Muhlenburg	5,172,503	Construction Complete 2014
Negrao Preschool	1,294,800	Plans Submitted
Moravian College/Hauptert Union	375,000	Under Construction
Moravian College Science Bldg (Phase 3)	1,186,000	Under Construction
Moravian College Gymnasium Renovations	287,000	Under Construction
Moravian Village Memory Care Facility	20,000,000	Plans Approved
Moravian Collection Resource Center	2,500,000	Under Construction
Notre Dame School Gymnasium Expansion	2,500,000	Plans Approved
Nitschmann Middle School	43,800,000	Plans Submitted
L.V.Performing Arts Charter High School	25,000,000	Under Construction
Bethlehem Hospital	6,500,000	Plans Approved
Institutional Subtotal	131,577,835	
Mixed-Use		
Conradical Clever Closets	886,400	Construction Complete 2014
Farr Building	5,500,000	Under Construction / Portions Complete
Jack Jones Building	3,200,000	Construction Complete 2014
James Best Mixed Commercial/Residential	5,154,200	Under Construction/Portions Complete
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 Tower	300,000,000	Plans Approved
409-411 Wyandotte Mixed Use	750,000	Plans Approved
Mixed-Use Subtotal	423,990,600	
Industrial		
Gardner Cryogenics	1,980,000	Construction Complete 2014
Lusitania Bakery	200,000	Construction Complete 2014
LVIP VII LPT Warehouse (lots 3,4,5), 10 Emery	44,000,000	Under Construction
LVIP VII 2785 Commerce Ctr Blvd (Walmart)	74,250,000	Construction Complete 2014
LVIP VII Lot 17 Warehouse/2115 Spillman Dr	5,000,000	Under Construction
LVIP VII, 2485 Commerce Ctr Blvd Warehouse	50,000,000	Under Construction
Majestic Bethlehem Center	500,000,000	Under Construction
National Magnetic Corporation	250,000	Under Construction
LVIP VII Lot 13 Spillman Dr	9,702,000	Planning Commission Approved
LVIP VII Lot 82 - Curtiss Wright	7,000,000	Under Construction
LVIP VII - CSTK, 125 Emery St	4,650,000	Under Construction
Patriot Distribution (LVIP VII, Lot 14)	11,770,000	Plans Approved
Industrial Subtotal	708,802,000	

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Commercial		<u>Status as of August 2014</u>
Chevy 21	365,000	Construction Complete 2014
Freedom Lawn Care	533,500	Plans Approved
One West Fourth	2,000,000	Under Construction / Portions Complete
Sands Retail / Event Center	30,000,000	Construction Complete 2014
Giant Grocery Fueling Facility	375,000	Plans Approved
Pet Smart	1,400,000	Construction Complete 2014
Restaurant Depot	7,400,000	Under Construction
Trans Bridge Park & Ride	230,000	Plans Approved
Donnelly Car Care Center (Stefko Blvd)	550,000	Plans Approved
Third and Taylor Office Building	9,750,000	Plans Approved
Commercial Subtotal	<u>52,603,500</u>	
Grand Total	<u>\$ 1,435,168,935</u>	

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, 2013

Assets	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Current assets:					
Cash and cash equivalents	\$ 14,373,147	\$ 5,295,465	\$ 19,668,612	\$ 10,356,332	\$ 30,024,944
Investments	93,183	-	93,183	1,214	94,397
Receivables (net of allowance for uncollectibles):					
Taxes	3,581,553	-	3,581,553	-	3,581,553
Accounts	685,428	7,283,472	7,968,900	356,580	8,325,480
Pledges	-	-	-	24,850	24,850
Other	747,239	-	747,239	56,621	803,860
Accrued interest	-	8,042	8,042	-	8,042
Due from component unit	131,250	-	131,250	-	131,250
Due from other governments	6,811,009	-	6,811,009	-	6,811,009
Internal balances	290,783	(290,783)	-	-	-
Inventories	-	272,065	272,065	-	272,065
Prepaid expenses	-	-	-	43,691	43,691
Total current assets	26,713,592	12,568,261	39,281,853	10,839,288	50,121,141
Noncurrent assets:					
Loans receivable	1,854,222	-	1,854,222	-	1,854,222
Restricted cash and cash equivalents	-	1,899,251	1,899,251	-	1,899,251
Restricted investments	-	11,976,198	11,976,198	1,685,820	13,662,018
Capital assets, not being depreciated	7,429,577	12,651,028	20,080,605	2,961,991	23,042,596
Capital assets, net	51,903,375	91,219,772	143,123,147	16,023,339	159,146,486
Other assets	1,379,201	517,640	1,896,841	1,199,593	3,096,434
Total noncurrent assets	62,566,375	118,263,889	180,830,264	21,870,743	202,701,007
Total Assets	89,279,967	130,832,150	220,112,117	32,710,031	252,822,148
Deferred Outflows of Resources					
Deferred charge on refunding	216,553	439,912	656,465	548,692	1,205,157
Total Deferred Outflows of Resources	216,553	439,912	656,465	548,692	1,205,157

(Continued)

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

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Liabilities					
Current liabilities:					
Accounts payable and other accrued expenses	2,599,203	3,337,088	5,936,291	242,598	6,178,889
Accrued payroll	1,762,390	377,046	2,139,436	122,936	2,262,372
Accrued vacation and other compensated absences	919,651	644,564	1,564,215	125,061	1,689,276
Interest payable	757,559	385,465	1,143,024	98,965	1,241,989
Escrow liabilities	7,727	-	7,727	-	7,727
Current portion of long-term debt	4,078,000	12,353,626	16,431,626	4,096,067	20,527,693
Current portion of capital lease obligations	617,884	102,545	720,429	177,484	897,913
Due to Agency Fund	3,131,393	4,757	3,136,150	-	3,136,150
Due to primary government	-	-	-	131,250	131,250
Unearned revenue	6,288,987	-	6,288,987	161,958	6,450,945
Total current liabilities	20,162,794	17,205,091	37,367,885	5,156,319	42,524,204
Noncurrent liabilities:					
Accrued vacation and other compensated absences, net of current portion	3,088,986	-	3,088,986	-	3,088,986
Accrued sick pay	-	177,685	177,685	-	177,685
Long-term debt, net of current portion	84,875,086	106,165,998	191,041,084	33,493,661	224,534,745
Capital lease obligation, net of current portion	6,015,547	332,515	6,348,062	451,254	6,799,316
Other post-employment benefit liability	3,475,333	723,235	4,198,568	-	4,198,568
Unearned revenue	-	-	-	337,713	337,713
Total noncurrent liabilities	97,454,952	107,399,433	204,854,385	34,282,628	239,137,013
Total Liabilities	117,617,746	124,604,524	242,222,270	39,438,947	281,661,217
Net Position					
Net investment in capital assets	23,119,914	942,247	24,062,161	5,162,302	29,224,463
Restricted	2,955,057	-	2,955,057	2,029,870	4,984,927
Unrestricted	(54,196,197)	5,725,291	(48,470,906)	(13,372,396)	(61,843,302)
Total Net Position	\$ (28,121,226)	\$ 6,667,538	\$ (21,453,688)	\$ (6,180,224)	\$ (27,633,912)

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013

Function/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 732,272	\$ -	\$ -	\$ -
Administrative	1,064,735	155,474	-	-
Community development	5,008,438	4,117,187	2,024,757	-
Parks and public property	5,295,265	600,303	266,853	274,088
Public works	8,823,904	1,388,291	1,623,172	288,105
Police	16,717,915	2,573,380	1,982,771	-
Fire	10,731,519	3,450,198	290,972	-
General expenditures	18,033,049	-	-	-
Civic	101,340	-	-	-
Library	1,381,871	-	-	-
Program expenditures	2,136,911	-	2,105,589	-
Interest on long-term debt	5,126,585	-	-	-
Total governmental activities	75,153,804	12,284,833	8,294,114	562,193
Business-type activities:				
Water Fund	21,237,723	19,841,283	-	3,435,639
Sewer Fund	10,138,886	13,767,359	-	-
Other non-major funds	1,566,468	1,407,764	-	-
Total business-type activities	32,943,077	35,016,406	-	3,435,639
Total primary government	\$ 108,096,881	\$ 47,301,239	\$ 8,294,114	\$ 3,997,832
Component units:				
Bethlehem Parking Authority	\$ 4,736,805	\$ 4,671,220	\$ -	\$ -
Bethlehem Public Library	3,292,014	233,608	3,224,718	-
Bethlehem Redevelopment Authority	7,526,497	-	-	11,574,318
Total component units	\$ 15,555,316	\$ 4,904,828	\$ 3,224,718	\$ 11,574,318

General Revenues:

- Real estate taxes and other taxes
- Grants and other charges not restricted to specific programs
- Investment income
- Sale of general capital assets

Transfers

Total general revenues and transfers

Change in Net Position

Net Position:

- Beginning of year, restated
- End of year

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

Net (Expense) Revenue and
Changes in Net Position

Primary Government			Component Units	Total
Governmental Activities	Business-Type Activities	Total		Reporting Entity
\$ (732,272)	\$ -	\$ (732,272)	\$ -	\$ (732,272)
(909,261)	-	(909,261)	-	(909,261)
1,133,506	-	1,133,506	-	1,133,506
(4,154,021)	-	(4,154,021)	-	(4,154,021)
(5,524,336)	-	(5,524,336)	-	(5,524,336)
(12,161,764)	-	(12,161,764)	-	(12,161,764)
(6,990,349)	-	(6,990,349)	-	(6,990,349)
(18,033,049)	-	(18,033,049)	-	(18,033,049)
(101,340)	-	(101,340)	-	(101,340)
(1,381,871)	-	(1,381,871)	-	(1,381,871)
(31,322)	-	(31,322)	-	(31,322)
(5,126,585)	-	(5,126,585)	-	(5,126,585)
<u>(54,012,664)</u>	<u>-</u>	<u>(54,012,664)</u>	<u>-</u>	<u>(54,012,664)</u>
-	2,039,199	2,039,199	-	2,039,199
-	3,628,473	3,628,473	-	3,628,473
-	(158,704)	(158,704)	-	(158,704)
<u>-</u>	<u>5,508,968</u>	<u>5,508,968</u>	<u>-</u>	<u>5,508,968</u>
<u>(54,012,664)</u>	<u>5,508,968</u>	<u>(48,503,696)</u>	<u>-</u>	<u>(48,503,696)</u>
-	-	-	(65,585)	(65,585)
-	-	-	166,312	166,312
-	-	-	4,047,821	4,047,821
<u>-</u>	<u>-</u>	<u>-</u>	<u>4,148,548</u>	<u>4,148,548</u>
34,604,593	-	34,604,593	-	34,604,593
14,064,821	-	14,064,821	-	14,064,821
52,992	619,621	672,613	400,340	1,072,953
1,200,000	-	1,200,000	-	1,200,000
2,901,289	(2,901,289)	-	-	-
<u>52,823,695</u>	<u>(2,281,668)</u>	<u>50,542,027</u>	<u>400,340</u>	<u>50,942,367</u>
(1,188,969)	3,227,300	2,038,331	4,548,888	6,587,219
<u>(26,932,257)</u>	<u>3,440,238</u>	<u>(23,492,019)</u>	<u>(10,729,112)</u>	<u>(34,221,131)</u>
<u>\$ (28,121,226)</u>	<u>\$ 6,667,538</u>	<u>\$ (21,453,688)</u>	<u>\$ (6,180,224)</u>	<u>\$ (27,633,912)</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2013

	General Fund	Non-Utility Capital Improvements Fund	Other Non-Major Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 2,883,348	\$ 7,891,456	\$ 3,586,086	\$ 14,360,890
Investments	-	93,183	-	93,183
Receivables:				
Taxes	3,581,553	-	-	3,581,553
Accounts	685,428	-	-	685,428
Loans	-	-	1,854,222	1,854,222
Other	653,061	10,704	83,474	747,239
Due from other funds	337,610	185,858	-	523,468
Due from component unit	131,250	-	-	131,250
Due from other governments	6,135,781	105,430	569,798	6,811,009
Total Assets	\$ 14,408,031	\$ 8,286,631	\$ 6,093,580	\$ 28,788,242
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable and other accrued expenses	\$ 999,091	\$ 884,643	\$ 715,469	\$ 2,599,203
Accrued payroll	1,685,665	-	76,725	1,762,390
Accrued vacation and other compensated absences	886,312	-	33,339	919,651
Escrow liabilities	7,727	-	-	7,727
Due to other funds	3,298,687	65,570	-	3,364,257
Unearned revenues	131,368	50,380	6,107,239	6,288,987
Total Liabilities	7,008,850	1,000,593	6,932,772	14,942,215
Deferred Inflows of Resources:				
Unavailable revenue - taxes	2,121,787	-	-	2,121,787
Fund Balance:				
Restricted for:				
Parks and public property	152,537	-	-	152,537
Community development	175,146	-	-	175,146
Debt service	2,303,670	-	-	2,303,670
Capital projects	-	7,286,038	-	7,286,038
Public works	-	-	323,704	323,704
Unassigned	2,646,041	-	(1,162,896)	1,483,145
Total Fund Balance	5,277,394	7,286,038	(839,192)	11,724,240
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 14,408,031	\$ 8,286,631	\$ 6,093,580	\$ 28,788,242

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, 2013

Total Fund Balance - Governmental Funds	\$ 11,724,240
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.	59,332,952
Real estate taxes and earned income taxes not collected within a period of time subsequent to year-end are recognized as revenue in the statement of net position.	2,121,787
Accrued vacation and other compensated absences not due within the next twelve months are recorded on the statement of net position.	(3,088,986)
Other post-employment benefit liability is recorded on the statement of net position.	(3,475,333)
Prepaid bond insurance and charge on refunding are amortized on the statement of net position.	1,595,754
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	(88,953,086)
Capital leases	(6,633,431)
Accrued interest payable is included on the statement of net position.	(757,559)
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>12,436</u>
Net Position - Governmental Activities	<u><u>\$ (28,121,226)</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, 2013

	General Fund	Non-Utility Capital Improvements Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 34,544,085	\$ -	\$ -	\$ 34,544,085
Licenses and permits	2,819,303	-	-	2,819,303
Intergovernmental revenues	6,653,039	844,046	5,129,668	12,626,753
Fines and forfeitures	455,041	-	-	455,041
Departmental earnings	7,075,745	-	-	7,075,745
Other charges	1,138,367	-	566,004	1,704,371
Municipal recreation	453,111	-	-	453,111
Investment income	13,703	6,021	33,268	52,992
Host fee	9,574,998	-	-	9,574,998
Other	793,442	1,514	57,155	852,111
Total revenues	63,520,834	851,581	5,786,095	70,158,510
Expenditures:				
Current:				
General government	737,961	-	-	737,961
Administrative	1,052,299	-	-	1,052,299
Community development	4,984,562	-	-	4,984,562
Parks and public property	3,054,025	-	-	3,054,025
Public works	4,733,198	-	1,529,372	6,262,570
Police	12,837,422	-	2,559,804	15,397,226
Fire	10,292,724	-	-	10,292,724
General expenditures	17,995,620	-	-	17,995,620
Civic	101,340	-	-	101,340
Library	1,277,000	-	-	1,277,000
Program expenditures	-	-	2,136,911	2,136,911
Capital outlays	-	4,425,572	-	4,425,572
Debt service - principal	345,541	8,007,049	3,778,000	12,130,590
Debt service - interest	113,962	606,846	4,344,970	5,065,778
Total expenditures	57,525,654	13,039,467	14,349,057	84,914,178
Excess (Deficiency) of Revenues Over Expenditures	5,995,180	(12,187,886)	(8,562,962)	(14,755,668)
Other Financing Sources (Uses):				
Transfers in	2,501,289	260,226	9,115,886	11,877,401
Transfers out	(8,517,267)	(73,226)	(385,619)	(8,976,112)
Sale of general capital assets	1,200,000	-	-	1,200,000
General obligation bonds issued	-	5,425,000	-	5,425,000
Refunding bonds issued	-	8,265,000	-	8,265,000
Original issue discount	-	(51,682)	-	(51,682)
Capital lease	460,690	3,840,000	-	4,300,690
Total other financing sources (uses)	(4,355,288)	17,665,318	8,730,267	22,040,297
Net Change in Fund Balance	1,639,892	5,477,432	167,305	7,284,629
Fund Balance:				
Beginning of the year	3,637,502	1,808,606	(1,006,497)	4,439,611
End of the year	\$ 5,277,394	\$ 7,286,038	\$ (839,192)	\$ 11,724,240

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, 2013

Net Change in Fund Balance - Governmental Funds	\$ 7,284,629
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$5,664,648) were less than depreciation (\$7,597,469) and loss on disposal (\$32,174) in the current period.	(1,964,995)
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.	(294,964)
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	(17,990,690)
Repayment of principal	12,130,590
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.	(27,388)
Change in accrued vacation and other compensated absences not due within the next twelve months in the statement of activities.	127,452
Change in other post-employment benefit liability in the statement of activities.	(434,437)
Governmental funds report the effect of bond insurance, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.	18,263
Activities of the internal service fund are reported as net income within the statement of activities.	(37,429)
Change in Net Position - Governmental Activities	\$ (1,188,969)

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - PROPRIETARY FUNDS

DECEMBER 31, 2013

Assets and Deferred Outflows of Resources	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Assets:					
Current assets:					
Cash and cash equivalents	\$ 384,645	\$ 4,905,398	\$ 5,422	\$ 5,295,465	\$ 12,257
Accounts receivable, net	3,640,182	3,643,290	-	7,283,472	-
Accrued interest	8,042	-	-	8,042	-
Due from other funds	-	55,000	10,570	65,570	179
Inventories	165,829	69,873	36,363	272,065	-
Total current assets	4,198,698	8,673,561	52,355	12,924,614	12,436
Restricted assets:					
Cash and cash equivalents	1,899,251	-	-	1,899,251	-
Investments	11,976,198	-	-	11,976,198	-
Capital assets, not being depreciated	1,224,109	11,251,919	175,000	12,651,028	-
Capital assets, net	84,104,900	6,269,359	845,513	91,219,772	-
Other assets	396,227	84,980	36,433	517,640	-
Total Assets	103,799,383	26,279,819	1,109,301	131,188,503	12,436
Deferred Outflows of Resources:					
Deferred charge on refunding	354,207	85,705	-	439,912	-
Total Assets and Deferred Outflows of Resources	\$ 104,153,590	\$ 26,365,524	\$ 1,109,301	\$ 131,628,415	\$ 12,436

(Continued)

	Enterprise Funds				
	Water Fund	Sewer Fund	Other	Total	Internal Service
			Enterprise Fund Municipal Golf Fund		
Liabilities and Net Position					
Liabilities:					
Current liabilities:					
Accounts payable and other					
accrued expenses	\$ 680,227	\$ 453,864	\$ 83,954	\$ 1,218,045	\$ -
Accrued payroll	220,317	139,765	16,964	377,046	-
Accrued vacation and other					
compensated absences	318,868	271,575	54,121	644,564	-
Construction accounts payable	1,023,622	1,095,421	-	2,119,043	-
Interest payable	310,305	71,777	3,383	385,465	-
Current portion of long-term debt	11,324,242	963,384	66,000	12,353,626	-
Current portion of capital lease					
obligation	-	-	102,545	102,545	-
Due to other funds	-	-	361,110	361,110	-
Total current liabilities	13,877,581	2,995,786	688,077	17,561,444	-
Accrued sick pay	123,871	53,814	-	177,685	-
Long-term debt, net	91,387,231	14,639,767	139,000	106,165,998	-
Capital lease obligation, net	-	-	332,515	332,515	-
Other post-employment benefits					
liability	438,513	238,064	46,658	723,235	-
Total Liabilities	105,827,196	17,927,431	1,206,250	124,960,877	-
Net Position:					
Net investment in capital assets	(3,780,203)	4,341,997	380,453	942,247	-
Unrestricted	2,106,597	4,096,096	(477,402)	5,725,291	12,436
Total Net Position	(1,673,606)	8,438,093	(96,949)	6,667,538	12,436
Total Liabilities and Net Position	\$ 104,153,590	\$ 26,365,524	\$ 1,109,301	\$ 131,628,415	\$ 12,436

(Concluded)

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

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

YEAR ENDED DECEMBER 31, 2013

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other Enterprise Fund		
			Municipal Golf Fund	Total	
Operating Revenues:					
Charges for services	\$ 19,334,199	\$ 12,643,331	\$ 1,397,111	\$ 33,374,641	\$ 10,254,907
Operating Expenses:					
Salaries, wages, and fringe benefits	4,996,156	3,525,195	737,274	9,258,625	-
Professional fees	1,026,682	156,284	2,593	1,185,559	-
Utilities	330,305	661,157	46,450	1,037,912	-
Maintenance and repairs	94,171	321,925	52,965	469,061	-
Department contracts	398,654	1,199,060	12,898	1,610,612	-
Supplies	520,503	737,004	196,488	1,453,995	-
Service charges	3,123,732	1,585,184	310,417	5,019,333	-
Depreciation and amortization	5,237,626	1,612,871	146,648	6,997,145	-
Insurance claims	-	-	-	-	10,427,980
Administration	-	-	-	-	29,329
Other	355,336	174,200	41,058	570,594	-
Total operating expenses	16,083,165	9,972,880	1,546,791	27,602,836	10,457,309
Operating Income (Loss)	3,251,034	2,670,451	(149,680)	5,771,805	(202,402)
Non-Operating Revenues (Expenses):					
Investment income	611,829	7,792	-	619,621	5
Interest expense	(5,154,558)	(166,006)	(19,677)	(5,340,241)	-
Tapping fees	-	498,970	-	498,970	-
Other revenues	507,084	625,058	10,653	1,142,795	164,968
Total non-operating revenues (expenses)	(4,035,645)	965,814	(9,024)	(3,078,855)	164,973
Change in net position before transfers and capital contributions	(784,611)	3,636,265	(158,704)	2,692,950	(37,429)
Transfers out	(340,661)	(2,560,628)	-	(2,901,289)	-
Capital contributions	3,435,639	-	-	3,435,639	-
Change in Net Position	2,310,367	1,075,637	(158,704)	3,227,300	(37,429)
Net Position:					
Beginning of year, restated	(3,983,973)	7,362,456	61,755	3,440,238	49,865
End of year	<u>\$ (1,673,606)</u>	<u>\$ 8,438,093</u>	<u>\$ (96,949)</u>	<u>\$ 6,667,538</u>	<u>\$ 12,436</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other	Total	
			Enterprise Fund Municipal Golf Fund		
Cash Flows From Operating Activities:					
Receipts from customers	\$ 17,561,890	\$ 12,069,735	\$ 1,374,609	\$ 31,006,234	\$ 10,254,907
Payments to suppliers for services	(5,605,765)	(5,015,810)	(443,424)	(11,064,999)	(10,457,309)
Payment to employees	(4,964,883)	(3,449,408)	(741,990)	(9,156,281)	-
Net cash provided by (used in) operating activities	6,991,242	3,604,517	189,195	10,784,954	(202,402)
Cash Flows From Noncapital Financing Activities:					
Transfers out	(340,661)	(2,560,628)	-	(2,901,289)	-
Other revenues received	507,084	625,058	10,653	1,142,795	164,968
Net cash provided by (used in) noncapital financing activities	166,423	(1,935,570)	10,653	(1,758,494)	164,968
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(1,904,544)	(5,558,852)	(17,140)	(7,480,536)	-
Principal payments on debt	(6,014,872)	(775,000)	(63,000)	(6,852,872)	-
Interest payments on debt	(3,124,221)	(276,312)	(20,716)	(3,421,249)	-
Principal payments on capital lease obligations	-	-	(93,709)	(93,709)	-
Tapping fees	-	498,970	-	498,970	-
Proceeds from issuance of debt	2,608,802	4,942,016	-	7,550,818	-
Payment of debt issuance costs	(24,500)	-	-	(24,500)	-
Net cash used in capital and related financing activities	(8,459,335)	(1,169,178)	(194,565)	(9,823,078)	-
Cash Flows From Investing Activities:					
Net sales of investments	653,132	-	-	653,132	-
Interest and dividends on investments	611,829	7,792	-	619,621	5
Net cash provided by investing activities	1,264,961	7,792	-	1,272,753	5
Net Increase (Decrease) in Cash and Cash Equivalents	(36,709)	507,561	5,283	476,135	(37,429)
Cash and Cash Equivalents:					
Beginning of year	2,320,605	4,397,837	139	6,718,581	49,686
End of year	\$ 2,283,896	\$ 4,905,398	\$ 5,422	\$ 7,194,716	\$ 12,257

(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, 2013

(Continued)

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating income (loss)	\$ 3,251,034	\$ 2,670,451	\$ (149,680)	\$ 5,771,805	\$ (202,402)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	5,237,626	1,612,871	146,648	6,997,145	-
Changes in assets and liabilities:					
Accounts receivable	(802,603)	(573,596)	-	(1,376,199)	-
Due from other funds	188,130	-	-	188,130	-
Inventories	(4,481)	(55,477)	15,355	(44,603)	-
Other assets	-	-	(22,502)	(22,502)	-
Accrued vacation and other compensated absences	(50,270)	26,087	(2,150)	(26,333)	-
Accrued payroll	35,294	20,502	(2,012)	53,784	-
Accounts payable and other accrued expenses	248,099	62,611	(5,170)	305,540	-
Due to other funds	(1,157,836)	(188,130)	209,260	(1,136,706)	-
Other post-employment benefits liability	46,249	29,198	(554)	74,893	-
Net cash provided by (used in) operating activities	\$ 6,991,242	\$ 3,604,517	\$ 189,195	\$ 10,784,954	\$ (202,402)
Non-cash Capital and Related Financing Activities:					
Capital contributions	\$ 3,435,639	\$ -	\$ -	\$ 3,435,639	\$ -
Issuance of capital lease	\$ -	\$ -	\$ 401,155	\$ 401,155	\$ -
Accretion of capital appreciation bonds	\$ 1,523,997	\$ -	\$ -	\$ 1,523,997	\$ -

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2013

	Employee Benefit Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ -	\$ 4,533,536
Interest and dividends receivable	332,183	-
Due from the City	-	3,136,150
Investments	136,651,334	-
Total Assets	136,983,517	7,669,686
Liabilities		
Escrow liabilities	-	7,669,686
Total Liabilities	-	\$ 7,669,686
Net Position		
Restricted for employees' retirement benefits	136,983,517	
Total Net Position	\$ 136,983,517	

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, 2013

	<u>Employee Benefit Trust Fund</u>
Additions:	
<hr/>	
Contributions:	
Employee contributions	\$ 1,325,896
Employer contributions	6,791,292
Total contributions	<u>8,117,188</u>
Investment earnings:	
Investment income	3,159,305
Realized and unrealized gains, net	17,416,377
Net investment earnings	<u>20,575,682</u>
Total additions	<u>28,692,870</u>
Deductions:	
<hr/>	
Benefits paid	10,727,732
Administrative costs	643,868
Total deductions	<u>11,371,600</u>
Change in Net Position	<u>17,321,270</u>
Net Position:	
<hr/>	
Beginning of year	<u>119,662,247</u>
End of year	<u><u>\$ 136,983,517</u></u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2013

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
Assets and Deferred Outflows of Resources				
<u>Assets:</u>				
Current assets:				
Cash and cash equivalents	\$ 442,386	\$ 619,970	\$ 9,293,976	\$ 10,356,332
Investments	1,214	-	-	1,214
Accounts receivable, net	228,438	7,322	120,820	356,580
Pledges receivable	-	24,850	-	24,850
Other receivables	56,621	-	-	56,621
Prepaid expenses	43,691	-	-	43,691
	<u>772,350</u>	<u>652,142</u>	<u>9,414,796</u>	<u>10,839,288</u>
Total current assets	772,350	652,142	9,414,796	10,839,288
Restricted investments	-	1,685,820	-	1,685,820
Capital assets, not being depreciated	2,956,991	5,000	-	2,961,991
Capital assets, net	15,580,203	412,221	30,915	16,023,339
Other assets	-	-	1,199,593	1,199,593
	<u>19,309,544</u>	<u>2,755,183</u>	<u>10,645,304</u>	<u>32,710,031</u>
Total Assets	19,309,544	2,755,183	10,645,304	32,710,031
<u>Deferred Outflows of Resources:</u>				
Deferred charge on refunding	548,692	-	-	548,692
	<u>548,692</u>	<u>-</u>	<u>-</u>	<u>548,692</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 19,858,236</u>	<u>\$ 2,755,183</u>	<u>\$ 10,645,304</u>	<u>\$ 33,258,723</u>

(Continued)

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
Liabilities and Net Position				
Liabilities:				
Accounts payable and other accrued expenses	\$ 197,497	\$ 16,120	\$ 28,981	\$ 242,598
Accrued payroll	55,990	66,946	-	122,936
Accrued vacation and other compensated absences	108,531	16,530	-	125,061
Interest payable	98,965	-	-	98,965
Current portion of long-term debt	586,474	-	3,509,593	4,096,067
Current portion of capital lease obligation	177,484	-	-	177,484
Due to primary government	131,250	-	-	131,250
Unearned revenue	161,958	-	-	161,958
Total current liabilities	1,518,149	99,596	3,538,574	5,156,319
Long-term debt, net	12,673,661	-	20,820,000	33,493,661
Capital lease obligation, net of current portion	451,254	-	-	451,254
Unearned revenue	337,713	-	-	337,713
Total Liabilities	14,980,777	99,596	24,358,574	39,438,947
Net Position:				
Net investment in capital assets	4,714,166	417,221	30,915	5,162,302
Restricted	-	2,029,870	-	2,029,870
Unrestricted	163,293	208,496	(13,744,185)	(13,372,396)
Total Net Position	4,877,459	2,655,587	(13,713,270)	(6,180,224)
Total Liabilities and Net Position	\$ 19,858,236	\$ 2,755,183	\$ 10,645,304	\$ 33,258,723
				(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, 2013

	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	\$ 4,736,805	\$ 4,671,220	\$ -	\$ -	\$ (65,585)	\$ -	\$ -	\$ (65,585)
Bethlehem Public Library	3,292,014	233,608	3,224,718	-	-	166,312	-	166,312
Bethlehem Redevelopment Authority	7,526,497	-	-	11,574,318	-	-	4,047,821	4,047,821
Total Component Units	\$ 15,555,316	\$ 4,904,828	\$ 3,224,718	\$ 11,574,318	(65,585)	166,312	4,047,821	4,148,548
General Revenues:								
Investment income					3	312,996	87,341	400,340
Total general revenues					3	312,996	87,341	400,340
Change in Net Position					(65,582)	479,308	4,135,162	4,548,888
Net Position:								
Beginning of year, restated					4,943,041	2,176,279	(17,848,432)	(10,729,112)
End of year					<u>\$ 4,877,459</u>	<u>\$ 2,655,587</u>	<u>\$ (13,713,270)</u>	<u>\$ (6,180,224)</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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 employee benefit trust fund financial statements. Revenues are recorded when earned and

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

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

Budgetary Accounting Control

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

Upon enactment of the budgets by City Council, any amendments are developed by individual City departments and presented to the Finance Committee of City Council. Amendments as approved by the Finance Committee are submitted to the City Council to be read in a public hearing and ratified. A ratified budget amendment becomes effective twenty 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, 2013

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.

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 2013 is as follows:

January 1, 2013	original levy date
January 1, 2013 – March 29, 2013	2% discount period
March 30, 2013 - May 31, 2013	face payment period
June 1, 2013 - December 31, 2013	10% penalty period

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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 2013 millage was 5.77 for general purposes, 0.75 for public safety capital projects, 0.76 for 911, 0.96 for recreation, 5.87 for debt service, 0.4 for landfill debt, 0.5 for Hirko settlement debt, and 0.88 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, 2013, appropriate interfund receivables or payables have been established.

Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are 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, 2013

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, Bond Premiums, and Prepaid Bond Insurance

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

Compensated Absences

The City's vacation policy provides that employees are to take unused vacation within a year following the year it was earned or the vacation time is lost to the employee, except that with the approval of the department head and the business administrator, employees may carry up to 30 days of vacation leave. In accordance with 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 200 days of sick leave to be paid to the employee when proper proof of illness is demonstrated. Police officers may accumulate up to 260 days of sick leave. Firefighters may accumulate up to 170 days of sick leave. Accumulated sick leave is not paid to an employee upon termination, except upon retirement. At that time, police and fire employees receive \$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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Employees that have up to twelve years of experience and voluntarily resign receive \$10 per day for accumulated sick leave up to a maximum of 50 days.

Unearned Revenues

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

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

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

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, 2013

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, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Adoption of Governmental Accounting Standards Board (GASB) Statement

The City has adopted GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities.”* This Statement reclassified certain items previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. As a result of implementation of this Statement, reclassifications have been made on the government-wide statement of net position, the balance sheet – governmental funds, and the balance sheet – proprietary funds. In addition, the beginning net position of the Governmental Activities, Business-Type Activities, Water Fund, and Sewer Fund has been restated to eliminate certain bond issuance costs from assets. See Note 15 for the restatement of beginning net position due to implementation of this Statement. Bond issuance costs previously were expensed over the life of the bonds. Under Statement No. 65, bond issuance costs, excluding bond insurance, are fully expensed in the year of issuance.

Pending Changes in Accounting Principles

In June of 2012, the GASB issued Statements No. 67 and 68, *“Financial Reporting for Pension Plans”* and *“Accounting and Financial Reporting for Pensions.”* In addition, in November of 2013, the GASB issued Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date.”* 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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

2. REPORTING ENTITY

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

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

Bethlehem Authority

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

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 2013 appropriation to the Library was \$1,277,000, which represented 34% 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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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.

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.

Related Organizations

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

Bethlehem Housing Authority

The Bethlehem Housing Authority (Housing Authority) has five commissioners who are appointed to staggered, five-year terms by the Mayor with City Council approval. The Housing Authority paid approximately \$382,000 in grant funds and \$55,000 in lieu of taxes to the City during the year ended December 31, 2013.

Bethlehem Economic Development Corporation

The Bethlehem Economic Development Corporation (BEDCO) has seven board members who are pre-determined by their position within the City and the Lehigh Valley Economic Development Corporation. A board member will automatically cease to be on the board upon ceasing to hold office. Four of the seven board members are from the City. The City provided enterprise zone loans to BEDCO and, as of December 31, 2013, BEDCO owes the City \$794,875. The loan receivables are recorded in the Community Development Block Grant Fund.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Bethlehem Revitalization and Improvement Authority

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

3. DEPOSITS AND INVESTMENTS

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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

A. Deposits

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2013, the City's book balance was \$26,101,399 and the bank balance was \$29,807,742. Of the bank balance, \$2,298,205 was covered by federal depository insurance and \$23,794,333 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. The remaining bank balance of \$3,715,204 was not collateralized.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Reconciliation to total cash and cash equivalents:	
<u>Governmental activities:</u>	
Unrestricted	\$ 14,373,147
<u>Business-type activities:</u>	
Unrestricted	5,295,465
Restricted	1,899,251
<u>Fiduciary funds:</u>	
Agency fund	4,533,536
Total cash and cash equivalents	<u>\$ 26,101,399</u>

B. Investments

The fair value of the investments of the City at December 31, 2013 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 14,181,489
External investment pool	2,823,175
U.S. Government obligations	12,750,023
U.S. Government agency obligations	2,877,476
Municipal bonds	434,085
Corporate bonds and notes	16,619,106
Equity mutual funds	27,661,222
Equities	43,070,664
Real estate equity funds	5,956,981
Collective investment trust - equity	7,750,660
Other investments	14,595,834
Total investments	<u>\$ 148,720,715</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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<u>Reconciliation to total investments</u>	
Governmental activities:	
Unrestricted	\$ 93,183
Business-type activities:	
Restricted	11,976,198
Fiduciary funds:	
Employee benefit trust fund	<u>136,651,334</u>
Total investments	<u>\$ 148,720,715</u>

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

Custodial credit risk. Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or 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, \$105,268,806 are held by the counterparty's trust department or agent in the City's name, \$8,467,947 are held by the counterparty's trust department or agent not in the name of the City, and the remaining balance of \$34,983,962 is not exposed to custodial credit risk because the investments are not evidenced by securities in book entry or paper form.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Credit risk. The City's money market and fixed income investments had the following level of exposure to credit risk as of December 31, 2013:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 14,181,489	AAA
External investment pool	2,823,175	AAA
U.S. Government agency obligations	2,542,339	AAA
U.S. Government agency obligations	335,137	AA+
Municipal bonds	230,435	AA+
Municipal bonds	203,650	AA
Corporate bonds and notes	351,352	AAA
Corporate bonds and notes	301,320	AA+
Corporate bonds and notes	930,551	AA
Corporate bonds and notes	1,242,983	AA-
Corporate bonds and notes	1,177,850	A+
Corporate bonds and notes	2,378,412	A
Corporate bonds and notes	4,074,681	A-
Corporate bonds and notes	2,394,610	BBB+
Corporate bonds and notes	2,737,491	BBB
Corporate bonds and notes	605,496	BBB-
Corporate bonds and notes	173,422	BB+
Corporate bonds and notes	250,938	B+

Concentration of credit risk. The City does have a formal policy that limits the amount the City may invest in any one issuer to five percent for the Employee Benefit Trust Fund, but not for the City's general investments. At December 31, 2013, the City does not hold more than five percent of the City's investments in the any one issuer.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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			2025 and beyond
		2014	2015-2019	2020-2024	
Money market funds	\$ 14,181,489	\$ 14,181,489	\$ -	\$ -	\$ -
External investment pool	2,823,175	2,823,175	-	-	-
U.S. Government obligations	12,750,023	7,632,446	2,163,780	2,953,797	-
U.S. Government agency obligations	2,877,476	2,542,339	260,761	-	74,376
Municipal bonds	434,085	434,085	-	-	-
Corporate bonds and notes	16,619,106	2,689,736	11,195,859	2,113,422	620,089
	<u>\$ 49,685,354</u>	<u>\$ 30,303,270</u>	<u>\$ 13,620,400</u>	<u>\$ 5,067,219</u>	<u>\$ 694,465</u>

Other Investments

At December 31, 2013, the City's Employee Benefit Trust Fund was invested in CCA Green, LP, a limited partnership, in the amount of \$7,140,368. 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.

At December 31, 2013, the City's Employee Benefit Trust Fund was invested in PENN Core High Yield Bond Fund, LP, a limited partnership, in the amount of \$3,378,492. The partnership invests in a variety of upper and middle quality noninvestment grade ("high

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

yield”) bonds and, to a lesser extent, unrated fixed income securities, primarily short-term and intermediate-term corporate bonds and other corporate fixed income obligations, including senior floating rate loans through the partnership’s investment in the PENN Institutional Loan Common Master Fund, L.P. Net profits and net losses are allocated in accordance with the ratio of their capital account balances.

At December 31, 2013, the City’s Employee Benefit Trust Fund was invested in PENN Institutional Bank Loan Fund, LP, a limited partnership, in the amount of \$4,076,974. The partnership invests substantially all of its assets through a “master-feeder” fund structure and is a limited partner in PENN Institutional Loan Common Master Fund. Net profits and net losses are allocated in accordance with the ratio of their capital account balances.

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, 2013, the Parking Authority's book balance was \$442,386 and the bank balance was \$629,185. Of the bank balance at December 31, 2013, \$253,404 was covered by federal depository insurance and \$375,781 was collateralized under

CITY OF BETHLEHEM, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2013

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.

At December 31, 2013, 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, 2013, 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, 2013, 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.

Investments of the Library are managed by the board and management of the Library, without restriction as to type of investment.

A. Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of December 31, 2013, the Library's book balance was \$619,970 and the bank balance was \$844,028. Of the bank balance, \$250,000 was covered by federal depository insurance and \$594,028 was collateralized under the Act, in which financial

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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 fair value of the investments of the Library at December 31, 2013 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 33,598
U.S. Government agency obligations	31,054
Municipal bonds	25,456
Corporate bonds	89,298
Equities	1,506,414
Total investments	<u>\$ 1,685,820</u>

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

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, 2013:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 33,598	AAA
U.S. Government agency obligations	31,054	AA+
Municipal bonds	25,456	AA+
Corporate bonds	15,498	AA+
Corporate bonds	46,211	A+
Corporate bonds	27,589	A-

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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, 2013, no investments were held that were more than five percent of the Library’s investments.

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

	Fair Value	Investment Maturities	
		2014	2015-2019
Money market funds	\$ 33,598	\$ 33,598	\$ -
U.S. Government agency obligations	31,054	25,650	5,404
Municipal bonds	25,456	25,456	-
Corporate bonds	89,298	18,129	71,169
Total	<u>\$ 179,406</u>	<u>\$ 102,833</u>	<u>\$ 76,573</u>

Redevelopment Authority

A. Deposits

Lafayette Ambassador Bank (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

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4. CAPITAL ASSETS

A summary of changes in capital assets follows:

	January 1, 2013	Additions and Transfers In	Disposals and Transfers Out	December 31, 2013
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,752,780	\$ -	\$ -	\$ 6,752,780
Construction in progress	659,549	225,185	(207,937)	676,797
Total capital assets not being depreciated	<u>7,412,329</u>	<u>225,185</u>	<u>(207,937)</u>	<u>7,429,577</u>
Capital assets being depreciated:				
Buildings and related improvements	30,279,945	244,037	-	30,523,982
Improvements other than buildings	45,921,520	816,378	-	46,737,898
Furniture, machinery, and equipment	38,248,872	2,254,784	(487,709)	40,015,947
Infrastructure	26,051,959	2,332,201	-	28,384,160
Total capital assets being depreciated	<u>140,502,296</u>	<u>5,647,400</u>	<u>(487,709)</u>	<u>145,661,987</u>
Less accumulated depreciation for:				
Buildings and related improvements	(22,354,051)	(1,110,214)	-	(23,464,265)
Improvements other than buildings	(27,399,979)	(2,195,632)	-	(29,595,611)
Furniture, machinery, and equipment	(26,855,356)	(2,542,056)	455,535	(28,941,877)
Infrastructure	(10,007,292)	(1,749,567)	-	(11,756,859)
Total accumulated depreciation	<u>(86,616,678)</u>	<u>(7,597,469)</u>	<u>455,535</u>	<u>(93,758,612)</u>
Total capital assets being depreciated, net	<u>53,885,618</u>	<u>(1,950,069)</u>	<u>(32,174)</u>	<u>51,903,375</u>
Governmental activities capital assets, net	<u>\$ 61,297,947</u>	<u>\$ (1,724,884)</u>	<u>\$ (240,111)</u>	<u>\$ 59,332,952</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	January 1, 2013	Additions	Disposals	December 31, 2013
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,980,542	\$ 144,300	\$ -	\$ 2,124,842
Construction in progress	5,593,991	4,932,195	-	10,526,186
Total capital assets not being depreciated	7,574,533	5,076,495	-	12,651,028
Capital assets being depreciated:				
Land improvements	1,100,349	-	-	1,100,349
Building and fixtures	13,698,969	140,001	-	13,838,970
Improvements other than buildings	195,776,274	5,297,818	-	201,074,092
Furniture, machinery, and equipment	4,530,223	119,357	(48,974)	4,600,606
Vehicles	4,336,293	612,451	(337,732)	4,611,012
Office equipment	344,679	-	-	344,679
Total capital assets being depreciated	219,786,787	6,169,627	(386,706)	225,569,708
Less accumulated depreciation for:				
Land improvements	(935,346)	(28,871)	-	(964,217)
Building and fixtures	(12,198,324)	(234,488)	-	(12,432,812)
Improvements other than buildings	(106,625,812)	(6,289,294)	-	(112,915,106)
Furniture, machinery, and equipment	(4,050,096)	(147,338)	48,974	(4,148,460)
Vehicles	(3,656,449)	(240,954)	337,732	(3,559,671)
Office equipment	(318,017)	(11,653)	-	(329,670)
Total accumulated depreciation	(127,784,044)	(6,952,598)	386,706	(134,349,936)
Total capital assets being depreciated, net	92,002,743	(782,971)	-	91,219,772
Business-type activities capital assets, net	\$ 99,577,276	\$ 4,293,524	\$ -	\$ 103,870,800

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Depreciation expense was charged to governmental activities as follows:

General government	\$	547
Administrative		36,338
Community development		237,549
Parks and public property		1,835,330
Public works		3,496,692
Police		1,333,801
Fire		552,341
Library		104,871
		<u>104,871</u>
	\$	<u>7,597,469</u>

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

Water Fund	\$	5,212,309
Sewer Fund		1,593,641
Municipal Golf Fund		146,648
		<u>146,648</u>
	\$	<u>6,952,598</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	January 1, 2013	Additions and Transfers In	Deletions and Transfers Out	December 31, 2013
Parking Authority:				
Capital assets, not being depreciated:				
Land	\$ 554,380	\$ 1,207,968	\$ -	\$ 1,762,348
Construction in progress	5,283	1,194,643	(5,283)	1,194,643
Total capital assets, not being depreciated	559,663	2,402,611	(5,283)	2,956,991
Capital assets, being depreciated:				
Parking garages	26,634,684	117,196	-	26,751,880
Furniture and fixtures	1,202,734	223,644	(27,556)	1,398,822
Automobiles	315,133	67,687	(37,828)	344,992
Leasehold and parking lot improvements	21,860	-	-	21,860
Total capital assets, being depreciated	28,174,411	408,527	(65,384)	28,517,554
Less accumulated depreciation	(11,902,402)	(1,100,333)	65,384	(12,937,351)
Total capital assets, being depreciated, net	16,272,009	(691,806)	-	15,580,203
Total capital assets, net	\$ 16,831,672	\$ 1,710,805	\$ (5,283)	\$ 18,537,194

During the year ended December 31, 2013, the Parking Authority purchased real estate from the City for \$1.2 million. The purchase of the property was in connection with the plans to build a new parking garage on the south side of the City.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	January 1, 2013	Additions	Deletions	December 31, 2013
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	217,856	-	277,428
Furniture, machinery, and equipment	912,752	160,950	(291,321)	782,381
Total capital assets, being depreciated	972,324	378,806	(291,321)	1,059,809
Less accumulated depreciation	(884,680)	(54,229)	291,321	(647,588)
Total capital assets, being depreciated, net	87,644	324,577	-	412,221
Total capital assets, net	\$ 92,644	\$ 324,577	\$ -	\$ 417,221

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

5. INTERFUND RECEIVABLE AND PAYABLES BALANCES

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2013 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental funds:		
General Fund	\$ 337,610	\$ 3,298,687
Non-Utility Capital Improvements Fund	185,858	65,570
Proprietary funds:		
Sewer Fund	55,000	-
Other Non-Major Enterprise Fund	10,570	361,110
Internal Service Fund	179	-
Agency Funds	<u>3,136,150</u>	<u>-</u>
Total	<u>\$ 3,725,367</u>	<u>\$ 3,725,367</u>

Interfund balances are primarily for reimbursement of expenditures paid on behalf of another fund and interfund loans for cash flow purposes. The amount due to the Agency Funds from the General Fund is not expected to be entirely paid back in the subsequent year.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

6. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2013 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ 2,501,289	\$ 8,517,267
Non-Utility Capital Improvements Fund	260,226	73,226
Other Non-Major Governmental Funds	9,115,886	385,619
Proprietary funds:		
Water Fund	-	340,661
Sewer Fund	-	2,560,628
Total	<u>\$ 11,877,401</u>	<u>\$ 11,877,401</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, 2013

7. LONG-TERM OBLIGATIONS

Bonds and Notes Payable

A summary of long-term bonds and notes payable of the City at December 31, 2013 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, restated	\$ 87,271,000	\$ 103,486,695	\$ 11,550,336	\$ 268,000	\$ 115,305,031
Issuance of debt	13,690,000	2,608,802	4,942,016	-	7,550,818
Amortization of capital appreciation bonds	-	1,523,997	-	-	1,523,997
Repayment of debt	(11,688,000)	(6,014,872)	(775,000)	(63,000)	(6,852,872)
	89,273,000	101,604,622	15,717,352	205,000	117,526,974
Plus unamortized bond premium	42,429	1,175,104	13,398	-	1,188,502
Less unamortized bond discount	(362,343)	(68,253)	(127,599)	-	(195,852)
Outstanding at end of year	<u>\$ 88,953,086</u>	<u>\$102,711,473</u>	<u>\$ 15,603,151</u>	<u>\$ 205,000</u>	<u>\$118,519,624</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	Discretely Presented Component Units	
	Parking Authority	Redevelopment Authority
	Outstanding at beginning of year	\$ 11,605,828
Issuance of debt	3,104,000	-
Repayment of debt	(1,363,274)	(2,401,204)
	13,346,554	24,329,593
Less unamortized discount	(86,419)	-
Outstanding at end of year	\$ 13,260,135	\$ 24,329,593

Year	Governmental Activities			Water Fund		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 4,078,000	\$ 4,492,059	\$ 8,570,059	\$ 11,324,242	\$ 2,865,648	\$ 14,189,890
2015	4,809,000	4,323,525	9,132,525	6,597,827	2,412,609	9,010,436
2016	4,750,000	4,133,237	8,883,237	6,911,238	2,138,748	9,049,986
2017	4,254,000	3,946,269	8,200,269	7,240,995	1,849,474	9,090,469
2018	4,175,000	3,776,852	7,951,852	6,907,611	1,643,588	8,551,199
2019-2023	21,507,000	16,315,819	37,822,819	35,753,693	10,503,869	46,257,562
2024-2028	22,185,000	10,889,788	33,074,788	26,869,016	18,005,294	44,874,310
2029-2033	21,780,000	3,994,795	25,774,795	-	-	-
2034	1,735,000	98,896	1,833,896	-	-	-
Totals	\$ 89,273,000	\$ 51,971,240	\$ 141,244,240	\$ 101,604,622	\$ 39,419,230	\$ 141,023,852

Year	Sewer Fund			Municipal Golf Fund		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 963,384	\$ 331,328	\$ 1,294,712	\$ 66,000	\$ 8,118	\$ 74,118
2015	1,076,343	313,075	1,389,418	68,000	5,504	73,504
2016	1,095,925	292,505	1,388,430	71,000	2,812	73,812
2017	955,577	270,427	1,226,004	-	-	-
2018	845,980	306,724	1,152,704	-	-	-
2019-2023	3,354,123	1,381,622	4,735,745	-	-	-
2024-2028	3,572,037	904,558	4,476,595	-	-	-
2029-2033	3,705,275	323,468	4,028,743	-	-	-
2034	148,708	936	149,644	-	-	-
Totals	\$ 15,717,352	\$ 4,124,643	\$ 19,841,995	\$ 205,000	\$ 16,434	\$ 221,434

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Year	Parking Authority			Year	Redevelopment Authority
	Principal	Interest	Total		Principal
2014	\$ 586,474	\$ 476,240	\$ 1,062,714	2014	\$ 3,509,593
2015	599,683	451,269	1,050,952	2015	2,390,000
2016	3,727,397	432,078	4,159,475	2016	2,475,000
2017	646,000	357,608	1,003,608	2017	2,555,000
2018	675,000	336,419	1,011,419	2018	2,645,000
2019-2023	2,877,000	1,336,446	4,213,446	2019-2020	10,755,000
2024-2028	2,974,000	727,354	3,701,354		
2029-2030	1,261,000	86,684	1,347,684		
Totals	<u>\$ 13,346,554</u>	<u>\$ 4,204,098</u>	<u>\$ 17,550,652</u>		<u>\$ 24,329,593</u>

Total principal and interest for the primary government due through maturity is \$302,331,521.

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, 2013

Long-term obligations payable at December 31, 2013 are as follows:

Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2013</u>
General Obligation Bonds, Series B of 2004, due in annual installments of \$690,000 to \$1,735,000 through November 1, 2034; interest rates vary from 3.35% to 5.70%.	\$ 1,525,000	\$ 25,205,000
Bethlehem Authority Guaranteed Lease Revenue Bonds, Series of 2004, due in annual installments of \$570,000 to \$840,000 through October 1, 2015; interest rates vary from 2.15% to 4.40%.	805,000	1,645,000
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%.	225,000	1,785,000
General Obligation Bonds, Series B of 2005, due in one installment of \$395,000 in October 2016; interest rate of 3.80%.	-	395,000
General Obligation Notes, Series of 2007, due in annual installments of \$237,000 to \$1,453,000 through August 2022; interest rates fixed at 3.65% through August 2017 and variable through maturity.	263,000	2,800,000
General Obligation Notes, Series of 2008, due in annual installments of \$382,000 to \$711,000 through August 2016; interest rate of 3.96%.	705,000	1,798,000
General Obligation Bonds, Series of 2010, due in annual installments of \$290,000 to \$360,000 through August 2024; interest rates vary from 2.00% to 4.00%.	315,000	3,540,000
General Obligation Notes, Series C of 2010, due in annual installments of \$5,000 to \$1,800,000 through August 2020; interest rate of 3.55%.	5,000	6,030,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2013</u>
Bethlehem Authority Guaranteed Lease Revenue Bonds, Series A of 2011, due in annual installments of \$5,000 to \$3,125,000 through December 1, 2028; interest rates vary from 5.125% to 6.125%.	95,000	17,730,000
General Obligation Refunding Bonds, Series A of 2011, due in annual installments of \$1,035,000 to \$1,840,000 through December 2032; interest rate of 6.50%.	-	7,860,000
General Obligation Refunding Notes, Series B of 2011, due in annual installments of \$5,000 to \$1,600,000 through December 2032; interest rate of 6.50%.	5,000	6,795,000
General Obligation Bonds, Series A of 2013, due in annual installments of \$115,000 to \$380,000 through October 2033; interest rates vary from 0.70% to 3.50%.	115,000	5,425,000
Federally Taxable General Obligation Refunding Notes, Series B of 2013, due in annual installments of \$20,000 to \$840,000 through October 2026; interest rates vary from 1.688% to 4.643%.	20,000	8,265,000
Total Governmental Activities	<u>\$ 4,078,000</u>	<u>\$ 89,273,000</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, 2013

Business-Type Activities: Water Fund:	<u>Current Portion</u>	<u>Balance at December 31, 2013</u>
Bethlehem Authority Guaranteed Water Revenue Note, Series of 1997, due in annual installments of \$405,000 to \$1,260,000 through August 1, 2027; interest rates are variable. The interest rate at December 31, 2013 was 2.30%.	\$ 680,000	\$ 13,200,000
Bethlehem Authority Capital Appreciation Bonds, Series of 1998, due in annual installments of \$425,000 to \$7,320,000 from 2018 to 2028. The interest rates vary from 5.25% to 5.35%.	-	30,085,319
Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2004, due in annual installments of \$2,845,000 to \$5,410,000 through November 15, 2021; interest rates vary from 3.00% to 5.00%	3,885,000	37,035,000
1998 Pennvest loan payable in monthly installments of \$116,147, including interest at 3.20% through 2018.	1,234,719	5,531,780
General Obligation Note, Series of 2007, due in annual installments of \$46,000 to \$69,000 through August 2022; interest rates fixed at 3.65% through August 2017 and variable through maturity.	51,000	544,000
Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2010, due in annual installments of \$15,000 to \$940,000 through November 15, 2028; interest rates vary from 2.00% to 4.25%.	445,000	10,180,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Business-Type Activities:	Current	Balance at
Water Fund:	<u>Portion</u>	<u>December 31, 2013</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, 2013, the City had drawn down \$3,263,523 of the \$6,335,000 available under the note.</p>	3,263,523	3,263,523
<p>Federally Taxable General Obligation Notes, Series C of 2013, \$1,765,000 due in full on or before November 15, 2014, interest rate at 3.50%</p>	<u>1,765,000</u>	<u>1,765,000</u>
<p style="padding-left: 20px;">Total Water Fund</p>	<u>11,324,242</u>	<u>101,604,622</u>
Sewer Fund:		
<p>General Obligation Bonds, Series A of 2005, due in annual installments of \$90,000 to \$125,000 through October 2020; interest rates vary from 3.25% to 4.00%.</p>	100,000	775,000
<p>General Obligation Bonds, Series of 2010, due in annual installments of \$140,000 to \$390,000 through August 1, 2018; interest rates vary from 2.00% to 3.125%.</p>	380,000	1,535,000
<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, 2013, the City had drawn down \$6,912,352 of the \$9,429,730 available under the note.</p>	198,384	6,912,352

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Business-type Activities:	Current	Balance at
Sewer Fund:	Portion	December 31, 2013
	<u> </u>	<u> </u>
General Obligation Bonds, Series of 2012, due in annual installments of \$285,000 to \$430,000 through October 1, 2032; interest rates vary from 0.650% to 3.375%.	285,000	6,495,000
	<u> </u>	<u> </u>
Total Sewer Fund	<u>963,384</u>	<u>15,717,352</u>
Municipal Golf Fund:		
General Obligation Note, Series of 2008, due in annual installments of \$58,000 to \$71,000 through August 2016; interest rate of 3.96%.	66,000	205,000
	<u> </u>	<u> </u>
Total Business-Type Activities	<u>\$ 12,353,626</u>	<u>\$ 117,526,974</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Component Units: Parking Authority:	<u>Current Portion</u>	<u>Balance at December 31, 2013</u>
<p>General Obligation Bonds, Series C of 2013, due in annual installments of \$285,000 in October 2014 to \$575,000 in October 2030; interest rates vary from 3.75% to 4.75%.</p>	\$ 285,000	\$ 6,975,000
<p>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, 2013); secured by future revenues of the Authority.</p>	225,000	1,745,000
<p>Term Note of 2009, due in annual installments of \$71,000 in December 2014 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.</p>	71,000	1,506,000
<p>Grant Anticipation Note of 2013. Interest-only payments due semiannually throughout the term of the note at an interest rate of 1.75%. One final payment of all outstanding principal, accrued interest, and costs are to be paid at the maturity date of the note on December 15, 2016; secured by real property.</p>	-	3,104,000
<p>Loan payable, \$500 per month, including interest at 3.74% through December 31, 2016, unsecured loan.</p>	5,274	16,554
<p>Total Parking Authority</p>	<u>\$ 586,274</u>	<u>\$ 13,346,554</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	Current Portion	Balance at June 30, 2013
Redevelopment Authority:		
Note Payable, due in monthly installments through 2014; interest rate is variable.	\$ 1,199,593	\$ 1,199,593
TIF Bonds, Series of 2010, due in annual installments of \$2,235,000 to \$2,605,000 through December 2019, with a final payment of \$5,690,000 due in June 2020; interest rates fixed at 3.42% through December 2017, thereafter, rates are variable, with a 6.00% cap.	2,310,000	23,130,000
Total Redevelopment Authority	\$ 3,509,593	\$ 24,329,593

Other Changes in Long-Term Debt

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

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013
Governmental activities:				
Accrued vacation and other compensated absences	\$ 4,175,543	\$ -	\$ (166,906)	\$ 4,008,637
Capital leases	2,775,331	4,300,690	(442,590)	6,633,431
	\$ 6,950,874	\$ 4,300,690	\$ (609,496)	\$ 10,642,068
Business-type activities:				
Accrued vacation and other compensated absences	\$ 848,582	\$ -	\$ (26,333)	\$ 822,249
Capital leases	127,614	401,155	(93,709)	435,060
	\$ 976,196	\$ 401,155	\$ (120,042)	\$ 1,257,309

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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, 2013, the net book value of the equipment and vehicles held under capital leases and included in capital assets was \$3,087,625 for governmental activities and \$480,982 for business-type activities.

As of December 31, 2013, future minimum payments were as follows:

Year	Governmental Activities	Business-Type Activities
2014	\$ 863,531	\$ 111,555
2015	737,714	104,573
2016	678,032	104,573
2017	644,680	76,312
2018	665,018	76,312
2019-2023	3,677,534	-
2024-2026	756,761	-
Total commitment under capital leases	8,023,270	473,325
Less amount representing interest	1,389,839	38,265
Present value of future minimum lease payments	6,633,431	435,060
Less current portion	617,884	102,545
Long-term portion	<u>\$ 6,015,547</u>	<u>\$ 332,515</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Parking Authority

The Parking Authority has entered into multiple capital lease agreements for parking equipment and vehicles. The cost and accumulated depreciation of the leased equipment and vehicles by the Parking Authority were \$901,219 and \$302,737, respectively, at December 31, 2013. Amortization of the leased equipment and vehicles is included in depreciation expense. The future minimum lease payments required are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 201,001
2015	198,259
2016	191,423
2017	69,274
2018	18,254
	<hr/>
Total minimum lease payments	678,211
Less amount representing interest at 4.15% - 6.15%	49,473
	<hr/>
Present value of minimum lease payments	628,738
Less current portion	177,484
	<hr/>
Long-term portion	<u>\$ 451,254</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. Effective January 1, 2013, the Library is no longer a part of the City's PMRS pension plan. The Library will pay the City \$165,000 per year for ten years as part of an agreement to assist the City in meeting unfunded pension plan obligations on retired or fully vested Library employees. Alternatively, the Library offers a 457(b) plan to all remaining and new employees. During the year ended December 31, 2013, the Library paid \$165,000 to PMRS on behalf of the City for the first of the ten payments.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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:

	Firemen Pension Fund	Police Pension Fund	Officers' and Employees' Pension Fund	Employee Benefit Trust Fund Total
Assets				
Interest and dividends receivable	\$ 135,497	\$ 179,612	\$ 17,074	\$ 332,183
Investments	55,763,983	73,876,021	7,011,330	136,651,334
Total Assets	\$ 55,899,480	\$ 74,055,633	\$ 7,028,404	\$ 136,983,517
Net Position				
Restricted for employees' retirement benefits	\$ 55,899,480	\$ 74,055,633	\$ 7,028,404	\$ 136,983,517
Total Net Position	\$ 55,899,480	\$ 74,055,633	\$ 7,028,404	\$ 136,983,517

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	Firemen Pension Fund	Police Pension Fund	Officers' and Employees' Pension Fund	Employee Benefit Trust Fund Total
Additions:				
Employee contributions	\$ 544,581	\$ 781,315	\$ -	\$ 1,325,896
Employer contributions	2,245,105	3,494,690	1,051,497	6,791,292
Investment income	1,296,442	1,707,721	155,142	3,159,305
Realized and unrealized gains, net	7,153,353	9,413,302	849,722	17,416,377
Total additions	<u>11,239,481</u>	<u>15,397,028</u>	<u>2,056,361</u>	<u>28,692,870</u>
Deductions:				
Benefits paid	4,113,755	5,560,783	1,053,194	10,727,732
Administrative costs	264,593	347,898	31,377	643,868
Total deductions	<u>4,378,348</u>	<u>5,908,681</u>	<u>1,084,571</u>	<u>11,371,600</u>
Change in Net Position	6,861,133	9,488,347	971,790	17,321,270
Net Position:				
Beginning of year	<u>49,038,347</u>	<u>64,567,286</u>	<u>6,056,614</u>	<u>119,662,247</u>
End of year	<u>\$ 55,899,480</u>	<u>\$ 74,055,633</u>	<u>\$ 7,028,404</u>	<u>\$ 136,983,517</u>

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, 2013

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, 2013:

	Police	Firemen	Officers' and Employees'	PMRS
	All Full-time Members of the Police Force	All Full-time Members of the Fire Department	Closed 01/01/64	All Full-time Employees Not Previously Covered
<u>Covered Employees</u>				
Active plan members	150	110	-	338
Numbers of retirees and beneficiaries receiving benefits	159	115	52	272
Terminated employees entitled to deferred benefits	-	-	-	13

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, 2013. 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, 2013

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, 2013, the City made its annual required contribution of \$3,494,690, \$2,245,105, and \$1,051,497 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, 2011, 2012, and 2013 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, 2013 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 for the three City Plans, including an inflation component of 3.5% for the O&E Plan. The actuarial value of assets was based on market value. The Police and Firemen unfunded actuarial accrued liabilities (UAAL) are being amortized over 17 and 15 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, 2013 actuarial valuation utilized the entry age normal cost method. The actuarial assumptions included (a) investment rate of return of 5.5%, 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 eight years, utilizing the annual funding adjustment equal to 10% of negative UAAL. For the year ended December 31, 2013, the City made the \$4,033,849 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, 2013

(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)
Police:						
1/1/2013	\$ 64,469	\$ 90,777	\$ 26,308	71%	\$ 11,092	237%
Firemen:						
1/1/2013	\$ 49,055	\$ 64,153	\$ 15,098	76%	\$ 6,570	230%
Officers and Employees:						
1/1/2013	\$ 6,053	\$ 6,980	\$ 927	87%	-	N/A
PMRS:						
1/1/2013	\$ 97,156	\$ 124,567	\$ 27,411	78%	\$ 20,805	132%

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, 2013, 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, 2013

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 2013. 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 2013. 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, 2013

normally granted. If the retiree reaches Medicare eligibility prior to his or her spouse, the spouse may continue coverage and the City will contribute to coverage for the spouse until Medicare eligibility. An employee who retires prior to age 38 shall be eligible to enter the plan at the contribution rate equal to the negotiated rate for contributions.

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

Non-uniformed union and non-union employees:

Article IX of the Collective Bargaining Agreement between the City and the Service Employees International Union, Local 32BJ, Mid-Atlantic District, effective January 1, 2013, 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, 2013, the City contributed \$908,925 to the OPEB plan.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Police:

Police would pay any additional premiums above the City's contribution of \$340. For the year ended December 31, 2013, police retirees contributed \$122,984 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, 2013, firefighter retirees contributed \$106,717 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, 2013, non-uniformed union and non-union retirees contributed \$182,784 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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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:	
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, 2013

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, 2013 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 1,235,023	\$ 243,703	\$ 1,478,726
Interest on net OPEB obligation	136,996	29,020	166,016
Adjustment to ARC	(183,439)	(43,048)	(226,487)
Annual OPEB cost	1,188,580	229,675	1,418,255
Contribution made	(754,143)	(154,782)	(908,925)
Change in Net OPEB obligation	434,437	74,893	509,330
Net OPEB obligation, beginning	3,040,896	648,342	3,689,238
Net OPEB obligation, ending	<u>\$ 3,475,333</u>	<u>\$ 723,235</u>	<u>\$ 4,198,568</u>

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2013	\$ 1,418,255	64.1%	\$ 4,198,568
2012	1,427,904	58.8%	3,689,238
2011	1,371,945	54.5%	3,100,490

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, 2013

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 \$177,313 to the plan during 2013. 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 2013. 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, 2013

Construction

The City is committed in various construction contracts in the total amount of \$1,598,570 at December 31, 2013.

At December 31, 2013, the Parking Authority has engineering commitments related to garage construction projects in the amount of \$345,221.

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 November 2013, the line of credit was renewed, and will expire on October 31, 2014. 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. At December 31, 2013, there were no amounts borrowed under the line of credit.

Violations of Finance-Related Legal and Contractual Provisions

During the year ended December 31, 2013, 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 \$1,205,550, 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 2014.

In past years, the City advanced itself earned income tax (EIT) receipts that were being held on behalf of other governments and owed approximately \$3.1 million back to the EIT account at December 31, 2013. Beginning January 1, 2011, Keystone Collections Group is collecting the City's EIT funds; therefore, the City can no longer advance or borrow EIT. Also, as of December 31, 2013, the City has \$2,850,800 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.

Tax Incremental Financing Project

The City, along with the Redevelopment Authority, agreed to participate in a Tax Incremental Financing (TIF) Project to finance a portion of costs associated with various redevelopment of the Bethlehem Steel site. Some of the larger projects include the Steelstacks Plaza, Levitt Pavilion, Festival Center Plaza, Hoover-Mason Trestle, and various parking lots. The City has

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

agreed to pay to the Redevelopment Authority specified portions of the incremental real estate tax revenues created by the Project for payment of the debt service on the TIF Bonds. The outstanding principal amount of the TIF Bonds is \$23,130,000 at June 30, 2013. During the year ended December 31, 2013, City tax revenues collected and remitted directly to the TIF were approximately \$1,421,258.

12. LETTER OF CREDIT NOTE

In December 2012, the City renewed an irrevocable standby letter of credit through Wells Fargo in the amount of \$2,215,000. In August 2013, this letter of credit was decreased to \$1,340,000. The beneficiary on this letter of credit is Pennsylvania Manufacturers' Association Insurance Company (PMA). According to the terms of the letter of credit, the beneficiary may, at any time, draw upon this letter of credit, up to the full amount. Commission fees on this letter of credit are paid by the City at a rate of 1.25%. 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, 2013, 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 93% of the total taxes collected by the City in 2013. 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. NEGATIVE FUND BALANCE AND NET POSITION

911 Fund

The 911 Fund had a deficit balance of \$1,162,896 at December 31, 2013. In 2013, the City implemented a dedicated 911 tax which is estimated to generate \$1.1 million for 2014.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Water Fund

The Water Fund had a deficit balance of \$1,673,606 at December 31, 2013. 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 occurred in 2014.

Municipal Golf Fund

The Municipal Golf Fund had a deficit balance of \$96,949 at December 31, 2013. The City will address the deficit as part of the 2015 budget. Expense reductions and fee increases will be considered.

15. RESTATEMENT

As discussed in Note 1, the City adopted GASB Statement No. 65 during the year ended December 31, 2013. As a result of adopting Statement No. 65, certain bond issuance costs have been eliminated from assets.

Business-type activities and Water Fund net position was also restated to record accretion on the Bethlehem Authority Capital Appreciation Bonds, Series of 1998. Had the accretion been properly recorded, the change in net position for the Business-type Activities would have been \$2,194 for the year ended December 31, 2012, \$1,446,800 less than originally reported. Had the accretion been properly recorded, the change in net position for the Water Fund would have been \$(121,950) for the year ended December 31, 2012, \$1,446,800 less than originally reported.

The following summarizes restatements made to beginning net position:

	Governmental Activities	Business-type Activities	Water Fund	Sewer Fund
Net position, originally stated	\$ (25,925,954)	\$ 6,710,251	\$ (802,069)	\$ 7,450,565
Implementation of GASB 65	(1,006,303)	(449,702)	(361,593)	(88,109)
Restatement for long-term debt	-	(2,820,311)	(2,820,311)	-
Net position, restated	<u>\$ (26,932,257)</u>	<u>\$ 3,440,238</u>	<u>\$ (3,983,973)</u>	<u>\$ 7,362,456</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

16. SUBSEQUENT EVENTS

In June 2014, the Redevelopment Authority entered into a construction contract in the amount of \$7,984,143.

In July 2014, the City approved the issuance of Guaranteed Revenue Note, Series of 2014, in the amount of \$10,737,000, for the dewatering facility project.

In August 2014, the Bethlehem Authority issued Guaranteed Water Revenue Bonds, Series of 2014, in the amount of \$67,785,000, for the current refunding of a portion of the Guaranteed Water Revenue Note, Series A of 1997 and Guaranteed Water Revenue Bonds, Series of 2004 and Series of 2010, and for capital improvements to the water system.

**Required Supplementary
Information**

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 34,663,671	\$ 34,663,671	\$ 35,055,334	\$ 391,663
Licenses and permits	2,190,350	2,190,350	2,804,432	614,082
Intergovernmental	6,618,978	6,813,103	6,486,737	(326,366)
Departmental earnings	7,151,450	7,268,450	6,882,677	(385,773)
Fines and forfeitures	540,000	540,000	455,041	(84,959)
Investment income	-	-	(19,796)	(19,796)
Municipal recreation	545,700	545,700	453,111	(92,589)
Host fees	9,938,000	9,938,000	9,510,984	(427,016)
Other operating revenues	1,017,200	1,017,200	736,329	(280,871)
Miscellaneous	2,015,850	2,015,850	2,623,586	607,736
Total revenues	<u>64,681,199</u>	<u>64,992,324</u>	<u>64,988,435</u>	<u>(3,889)</u>
Expenditures:				
Current:				
General government	912,242	912,242	893,074	19,168
Administration	1,836,924	1,865,929	1,754,015	111,914
Community development	5,558,929	5,618,439	5,072,046	546,393
Parks and public property	3,896,015	3,880,945	3,805,438	75,507
Public works	6,018,601	6,018,601	5,268,462	750,139
Police	12,940,030	13,186,307	12,849,171	337,136
Fire	10,266,604	10,331,702	10,233,977	97,725
General	18,184,928	18,237,410	17,671,104	566,306
Civic	111,969	111,969	110,827	1,142
Library	1,277,000	1,277,000	1,277,000	-
Debt service:				
Principal	3,509,000	3,509,000	3,509,000	-
Interest	3,971,152	3,971,152	3,971,138	14
Total expenditures	<u>68,483,394</u>	<u>68,920,696</u>	<u>66,415,252</u>	<u>2,505,444</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,802,195)</u>	<u>(3,928,372)</u>	<u>(1,426,817)</u>	<u>2,501,555</u>
Other Financing Sources (Uses):				
Transfers in	4,771,051	4,771,051	2,995,899	(1,775,152)
Transfers out	(2,168,856)	(2,042,679)	(2,042,678)	1
Sale of general capital assets	1,200,000	1,200,000	1,200,000	-
Total other financing sources (uses)	<u>3,802,195</u>	<u>3,928,372</u>	<u>2,153,221</u>	<u>(1,775,151)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 726,404</u>	<u>\$ 726,404</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, 2013

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	\$ 69,184,334	\$ 68,457,930
Other fund borrowings	(699,258)	-
Accrual adjustments:		
Receivables:		
Beginning of year	(11,245,635)	(1,045)
End of year	11,187,283	210
Due from/to:		
Beginning of year	8,907,796	3,748,848
End of year	(10,708,018)	(6,329,334)
Accrued liabilities:		
Beginning of year	-	(4,179,794)
End of year	142,900	3,721,695
Deferred revenues:		
Beginning of year	2,542,155	-
End of year	(2,253,155)	-
Reclassifications	624,411	624,411
GAAP basis	<u>\$ 67,682,813</u>	<u>\$ 66,042,921</u>

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
Police:	1/1/2009	\$ 64,399	\$ 74,424		\$ (10,025)	87%	\$ 10,058	-100%
	1/1/2011	63,718	83,930	(1)	(20,212)	76%	11,565	-175%
	1/1/2013	64,469	90,777	(2)	(26,308)	71%	11,092	-237%
Firemen:	1/1/2009	48,780	55,305		(6,525)	88%	6,544	-100%
	1/1/2011	48,627	62,441	(3)	(13,814)	78%	7,318	-189%
	1/1/2013	49,055	64,153	(4)	(15,098)	76%	6,570	-230%
Officers and Employees:	1/1/2009	7,943	8,984		(1,041)	88%	241	-432%
	1/1/2011	7,121	8,531		(1,410)	83%	120	-1175%
	1/1/2013	6,053	6,980	(5)	(927)	87%	-	N/A
PMRS:	1/1/2009	77,370	97,712		(20,342)	79%	23,164	-88%
	1/1/2011	88,255	111,163	(6)	(22,908)	79%	22,034	-104%
	1/1/2013	97,156	124,567	(7)	(27,411)	78%	20,805	-132%

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

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

- (1) Actuarial losses and actuarial assumption modifications for the 1/1/2011 valuation resulted in increases to the AAL of \$10.7 million.
- (2) Actuarial losses and actuarial assumption modifications for the 1/1/2013 valuation resulted in increases to the AAL of \$7.3 million.
- (3) Actuarial losses and actuarial assumption modifications for the 1/1/2011 valuation resulted in increases to the AAL of \$6.5 million.
- (4) Actuarial losses and actuarial assumption modifications for the 1/1/2013 valuation resulted in increases to the AAL of \$2.4 million.
- (5) Actuarial losses and actuarial assumption modifications for the 1/1/2013 valuation resulted in increases to the AAL of \$603,000.
- (6) Actuarial losses and actuarial assumption modifications for the 1/1/2011 valuation resulted in increases to the AAL of \$5.5 million.
- (7) Actuarial losses and actuarial assumption modifications for the 1/1/2013 valuation resulted in increases to the AAL of \$8.7 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
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%
2013	3,495	100%	2,245	100%	1,052	100%	4,034	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, 2013

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:

	Police	Firemen	Officers and Employees	PMRS
Actuarial valuation date	1/1/2013	1/1/2013	1/1/2013	1/1/2013
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 Closed
Amortization period	17 years	15 years	2 years	8 years
Asset valuation method	Market value as determined by Trustee			
Actuarial assumptions:				
Investment rate of return	7.5%	7.5%	7.5%	5.5%
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, 2013

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
2011	\$ 1,412,540	53.0%
2012	1,478,726	56.7%
2013	1,478,726	61.5%

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:	
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, 2013

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Debt Service Fund	Total
Assets					
Cash and cash equivalents	\$ 762,691	\$ 2,390,901	\$ 432,494	\$ -	\$ 3,586,086
Receivables:					
Loans	-	1,854,222	-	-	1,854,222
Other	83,474	-	-	-	83,474
Due from other governments	-	569,798	-	-	569,798
Total Assets	\$ 846,165	\$ 4,814,921	\$ 432,494	\$ -	\$ 6,093,580
Liabilities and Fund Balance					
Liabilities:					
Accounts payable and other accrued expenses	\$ 32,756	\$ 573,923	\$ 108,790	\$ -	\$ 715,469
Accrued payroll	64,968	11,757	-	-	76,725
Accrued vacation and other compensated absences	18,732	14,607	-	-	33,339
Unearned revenues	1,892,605	4,214,634	-	-	6,107,239
Total Liabilities	2,009,061	4,814,921	108,790	-	6,932,772
Fund Balance:					
Restricted for:					
Public works	-	-	323,704	-	323,704
Unassigned	(1,162,896)	-	-	-	(1,162,896)
Total Fund Balance	(1,162,896)	-	323,704	-	(839,192)
Total Liabilities and Fund Balance	\$ 846,165	\$ 4,814,921	\$ 432,494	\$ -	\$ 6,093,580

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2013

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Debt Service Fund	Total
Revenues:					
Intergovernmental revenues	\$ 1,671,254	\$ 2,048,434	\$ 1,409,980	\$ -	\$ 5,129,668
Other charges	566,004	-	-	-	566,004
Investment income	-	31,322	1,946	-	33,268
Other	-	57,155	-	-	57,155
Total revenues	2,237,258	2,136,911	1,411,926	-	5,786,095
Expenditures:					
Current:					
Public works	-	-	1,529,372	-	1,529,372
Police	2,559,804	-	-	-	2,559,804
Program expenditures	-	2,136,911	-	-	2,136,911
Debt service - principal	-	-	-	3,778,000	3,778,000
Debt service - interest	-	-	-	4,344,970	4,344,970
Total expenditures	2,559,804	2,136,911	1,529,372	8,122,970	14,349,057
Deficiency of Revenues Over Expenditures	(322,546)	-	(117,446)	(8,122,970)	(8,562,962)
Other Financing Sources (Uses):					
Transfers in	992,916	-	-	8,122,970	9,115,886
Transfers out	(385,619)	-	-	-	(385,619)
Total other financing sources (uses)	607,297	-	-	8,122,970	8,730,267
Net Change in Fund Balance	284,751	-	(117,446)	-	167,305
Fund Balance:					
Beginning of year	(1,447,647)	-	441,150	-	(1,006,497)
End of year	<u>\$ (1,162,896)</u>	<u>\$ -</u>	<u>\$ 323,704</u>	<u>\$ -</u>	<u>\$ (839,192)</u>