

**Redevelopment Authority of the  
City of Bethlehem**

**(A Component Unit of the City of Bethlehem)  
Financial Statements**

Year Ended June 30, 2015 with  
Independent Auditor's Report

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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**Communication to Those Charged with Governance**

Board of Directors  
Redevelopment Authority of  
the City of Bethlehem

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Authority of the City of Bethlehem (Authority), a component unit of the City of Bethlehem, as of and for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our conversation with you about planning matters on December 15, 2015. Professional standards also require that we communicate to you the following information related to our audit.

**Our Responsibility under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated October 9, 2015, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In addition, our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Authority has adopted Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." These Statements revise and establish reporting requirements for governments that provide their employees with pensions. Other than the adoption of GASB Statements No. 68 and 71, no new accounting policies were

adopted and the application of existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Authority's financial statements are the estimated useful life of capital assets and the actuarial assumptions of the pension plan. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the Authority's financial statements taken as a whole.

#### Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most significant disclosures affecting the financial statements were Note 7, which discusses debt compliance; and Note 8, which discusses the Authority's pension plan.

The financial statement disclosures are neutral, consistent, and clear.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. However, the audit process was delayed due to inefficiency of auditing through manual ledgers and obtaining information from Public Municipal Retirement System (PMRS) for the implementation of GASB Statements No. 68 and 71.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: adjustments to accounts receivable, capital assets, and accounts payable.

In addition, the attached schedule summarizes an uncorrected misstatement of the financial statements. Management has determined that its effect is immaterial to each opinion unit's financial statements taken as a whole.

#### Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 16, 2016.

#### Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Other Matters

We applied certain limited procedures to the required pension information, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.



Board of Directors  
Redevelopment Authority of  
the City of Bethlehem  
Communication to Those Charged with Governance  
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\* \* \* \* \*

This information is intended solely for the use of the Board of Directors and management of the Authority, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Maier Duessel*

Harrisburg, Pennsylvania  
June 16, 2016

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

YEAR ENDED JUNE 30, 2015

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## Independent Auditor's Report

Board of Directors  
Redevelopment Authority of  
the City of Bethlehem

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Authority of the City of Bethlehem (Authority), a component unit of the City of Bethlehem, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As described in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board Statement No. 68, "*Accounting and Financial Reporting for Pensions*," and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*," which requires the Authority to record its net pension liability and related items on the government-wide financial statements. Our opinion is not modified with respect to that matter.

## **Other Matter**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the pension information on pages 28 through 30 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 the 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

***Maher Duessel***

Harrisburg, Pennsylvania  
June 16, 2016

**REDEVELOPMENT AUTHORITY OF  
THE CITY OF BETHLEHEM**

**STATEMENT OF NET POSITION**

JUNE 30, 2015

<b>Assets</b>	<b>Governmental Activities</b>
Current assets:	
Cash and cash equivalents	\$ 773,488
Restricted cash and cash equivalents	153
Restricted investments	8,158,219
Receivables	57,255
Total current assets	8,989,115
Non-current assets:	
Capital assets, not being depreciated	917,782
Capital assets, being depreciated, net	30,128,725
Total non-current assets	31,046,507
<b>Total Assets</b>	40,035,622
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources for pension	35,102
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	2,576,456
Accrued interest payable	85,455
Current portion of bonds payable	4,285,000
Total current liabilities	6,946,911
Non-current liabilities:	
Bonds payable	27,405,000
Net pension liability	131,455
Total non-current liabilities	27,536,455
<b>Total Liabilities</b>	34,483,366
<b>Deferred Inflows of Resources</b>	
Deferred inflows of resources for pension	6,166
<b>Net Position</b>	
Net investment in capital assets	4,912,558
Unrestricted	668,634
<b>Total Net Position</b>	\$ 5,581,192

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

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
<b>Functions/Programs:</b>	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:				
Community development	\$ 7,389,115	\$ 67,116	\$ 12,112,955	\$ 4,790,956
<b>Total Governmental Activities</b>	<b>\$ 7,389,115</b>	<b>\$ 67,116</b>	<b>\$ 12,112,955</b>	<b>4,790,956</b>
General revenues:				
Interest income				3,087
Total general revenues				3,087
<b>Change in Net Position</b>				4,794,043
<b>Net Position:</b>				
Beginning of year - restated				787,149
End of year				<b>\$ 5,581,192</b>

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



# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2015

	General	Bethlehem Works	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 773,488	\$ -	\$ 773,488
Restricted cash and cash equivalents	-	153	153
Restricted investments	-	8,158,219	8,158,219
Due from other funds	25,865	-	25,865
Receivables	57,255	-	57,255
<b>Total Assets</b>	<b>\$ 856,608</b>	<b>\$ 8,158,372</b>	<b>\$ 9,014,980</b>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ 2,576,456	\$ 2,576,456
Due to other funds	-	25,865	25,865
<b>Total Liabilities</b>	<b>-</b>	<b>2,602,321</b>	<b>2,602,321</b>
<b>Fund Balance:</b>			
<b>Restricted:</b>			
TIF projects	-	5,556,051	5,556,051
Unassigned	856,608	-	856,608
<b>Total Fund Balance</b>	<b>856,608</b>	<b>5,556,051</b>	<b>6,412,659</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 856,608</b>	<b>\$ 8,158,372</b>	<b>\$ 9,014,980</b>

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

**REDEVELOPMENT AUTHORITY OF  
THE CITY OF BETHLEHEM**

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

JUNE 30, 2015

**Total Fund Balance - Governmental Funds** \$ 6,412,659

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 governmental funds. 31,046,507

Long-term liabilities, including bonds payable applicable to the Authority's governmental activities, that are not due and payable in the current period, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.

Accrued interest payable	(85,455)
Bonds payable	(31,690,000)
Net pension liability, net of related deferred outflows and inflows of resources	<u>(102,519)</u>

**Total Net Position - Governmental Activities** \$ 5,581,192

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

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

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

YEAR ENDED JUNE 30, 2015

	General	Bethlehem Works	Total
<b>Revenues:</b>			
Intergovernmental	\$ 67,116	\$ -	\$ 67,116
TIF collections	-	12,112,955	12,112,955
Investment income	-	3,087	3,087
Total revenues	67,116	12,116,042	12,183,158
<b>Expenditures:</b>			
Current:			
Program expenditures	370,199	876,614	1,246,813
TIF rebate	-	5,015,793	5,015,793
Capital outlay	-	17,882,250	17,882,250
Debt service:			
Principal	-	2,390,000	2,390,000
Interest	-	806,885	806,885
Total expenditures	370,199	26,971,542	27,341,741
<b>Deficiency of Revenues Under Expenditures</b>	<b>(303,083)</b>	<b>(14,855,500)</b>	<b>(15,158,583)</b>
<b>Other Financing Sources (Uses):</b>			
Debt issued	-	12,015,706	12,015,706
Transfers in	856,909	-	856,909
Transfers out	-	(856,909)	(856,909)
Total other financing sources (uses)	856,909	11,158,797	12,015,706
<b>Net Change in Fund Balance</b>	<b>553,826</b>	<b>(3,696,703)</b>	<b>(3,142,877)</b>
<b>Fund Balance:</b>			
Beginning of year	302,782	9,252,754	9,555,536
End of year	\$ 856,608	\$ 5,556,051	\$ 6,412,659

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

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

**Net Change in Fund Balance - Governmental Funds** \$ (3,142,877)

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 these assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 17,882,250	
Depreciation expense	<u>(238,393)</u>	17,643,857

Bond proceeds are reported as a financing source in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of principal on debt is an expenditure in the governmental funds, but reduces the liability in the statement of net position.

Repayment of principal	2,390,000	
Issuance of debt	<u>(12,015,706)</u>	(9,625,706)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable		(85,455)
Change in net pension liability, net of related deferred outflows and inflows of resources		<u>4,224</u>

**Change in Net Position - Governmental Activities** \$ 4,794,043

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

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Nature of Activity*

The Redevelopment Authority of the City of Bethlehem (Authority) was incorporated under the provisions of the Pennsylvania Urban Redevelopment Act Number 385 of May 24, 1945, as amended.

#### *Reporting Entity*

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria have been considered and there are no agencies or entities which should be presented with the Authority.

The Authority is considered a component unit of the City of Bethlehem (City) and the Authority's financial activities are included in the City's financial statements.

#### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The basic financial statements of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements

#### Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of applicable Governmental Accounting Standards Board (GASB) pronouncements.

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# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

### Fund Financial Statements

The underlying accounting system of the Authority is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually.

### Governmental Funds

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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Intergovernmental revenue, Tax Increment Financing (TIF) collections, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and thus have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Authority. Expenditures generally are recorded when a liability is incurred.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.



# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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The determination of major funds is based on minimum criteria as set forth in GASB pronouncements. The following are the Authority's major funds:

*General Fund* – is used to account for several cooperation agreements with the City's CDBG program and other funding sources wherein administration and other costs are provided by the Authority for general administrative, rehabilitation activities, and property acquisition and demolition.

*Bethlehem Works* – is used to account for the collection of financing district revenues from the various taxing bodies and to pay for construction and construction-related costs associated with various projects within the designated Bethlehem Works TIF District.

### ***Cash and Cash Equivalents***

For the purpose of financial reporting, the Authority considers all unrestricted demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less to be cash equivalents.

### ***Investments***

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

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

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

Investments are stated at fair value.

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**REDEVELOPMENT AUTHORITY OF  
THE CITY OF BETHLEHEM**

**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2015

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***Restricted Cash and Investments***

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

***Capital Assets***

Capital assets of the Authority result from expenditures in the governmental funds. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at historical cost at the acquisition date. Donated capital assets are reported at their fair value as of the date received. The Authority maintains a capitalization threshold of \$25,000. All capital assets are depreciated, except for land, land improvements (excavation, fill, grading, landscaping), construction in progress, easements, and rights of way.

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

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

***Deferred Inflows and Outflows of Resources for Pension***

In conjunction with pension accounting requirements, the effect of the differences in the Authority's expected and actual experience, the difference between projected and actual earnings on pension plan investments, and Authority contributions subsequent to the measurement date are recorded as deferred inflows or outflows of resources related to pension on the government-wide financial statements. These amounts are determined based on the actuarial valuation performed for the pension plan. Note 8 presents additional information about the pension plan.

***Long-term Debt***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

### *Net Position/Fund Balances*

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets and unrestricted.

- Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, and intangible assets, 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 the balance in this category.
- Unrestricted Net Position – This category represents net position of the Authority not restricted for any project or other purpose.

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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.

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

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# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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### ***Risk Management***

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions in insurance coverages during the year ended June 30, 2015. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

### ***Use of Estimates in the Preparation of Financial Statements***

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### ***Adoption of GASB Statements***

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date," were adopted for the year ended June 30, 2015 by the Authority. As a result of this implementation, the governmental activities net position as of July 1, 2014 was restated as follows:

Net position at July 1, 2014 - as originally stated	\$	893,892
Net pension liability at July 1, 2014		(115,792)
Contribution subsequent to the measurement date		<u>9,049</u>
Net position at July 1, 2014 - restated	\$	<u><u>787,149</u></u>

The net pension liability and its related components are described more fully in Note 8.

### ***Pending Changes in Accounting Principles***

In February of 2015, the GASB issued Statement No. 72, "Fair Value Measurement and Application." This Statement addresses accounting and financial reporting issues related to fair value measurements. The provisions of GASB Statement No. 72 are effective for the Authority's June 30, 2016 financial statements.

In June of 2015, the GASB issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." This Statement establishes

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# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by GASB Statements No. 67 and 68). The provisions of GASB Statement No. 73 are effective for the Authority's December 31, 2016 financial statements – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for the Authority's June 30, 2017 financial statements.

In June of 2015, the GASB issued Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" This Statement identifies the hierarchy of generally accepted accounting principles in the context of the current governmental financial reporting environment. The provisions of GASB Statement No. 76 are effective for the Authority's June 30, 2016 financial statements.

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

## 2. CASH AND INVESTMENTS

### *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 Authority does not have a formal deposit policy for custodial credit.

As of June 30, 2015, the Authority's book balance was \$773,641 and the bank balance was \$1,415,645. Of the bank balance at June 30, 2015, \$250,000 was covered by federal depository insurance and \$1,165,645 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.

### *Investments*

The fair value of the Authority's money market funds at June 30, 2015 was \$8,158,219.

*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 Authority does not have an investment policy for custodial credit risk. At June 30, 2015, the Authority was not exposed to custodial credit risk, because the investments held by the Authority are not evidenced by securities in book entry or paper form.

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# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

*Credit risk.* The Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Authority's money market funds were rated AAA as of June 30, 2015.

*Concentration of credit risk.* The Authority places no limit on the amount the Authority may invest in any one issuer.

*Interest rate risk.* The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2015, the Authority's money market funds have a maturity of less than one year.

### 3. CAPITAL ASSETS

The changes in the Authority's capital assets for the year ended June 30, 2015 were as follows:

	June 30, 2014	Additions/ Transfers In	Retirements/ Transfers Out	June 30, 2015
Capital assets, not being depreciated:				
Construction in progress	\$ 2,792,054	\$ 17,798,554	\$ (19,672,826)	\$ 917,782
Capital assets, being depreciated:				
Buildings	10,847,226	19,756,522	-	30,603,748
Total capital assets, being depreciated	10,847,226	19,756,522	-	30,603,748
Less accumulated depreciation for:				
Buildings	236,630	238,393	-	475,023
Total accumulated depreciation	236,630	238,393	-	475,023
Total capital assets being depreciated, net	10,610,596	19,518,129	-	30,128,725
Total capital assets, net	\$ 13,402,650	\$ 37,316,683	\$ (19,672,826)	\$ 31,046,507



**REDEVELOPMENT AUTHORITY OF  
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**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2015

**4. LONG-TERM DEBT**

Long-term debt activity for the year ended June 30, 2015 consisted of the following:

Bonds	Balance Outstanding June 30, 2014	Additions	Reductions	Balance Outstanding June 30, 2015	Due Within One Year
Tax Increment Revenue Bonds,					
Series of 2010	\$ 20,820,000	\$ -	\$ 2,390,000	\$ 18,430,000	\$ 2,475,000
Series of 2012	1,159,294	8,840,706	-	10,000,000	1,350,000
Series of 2013	85,000	3,175,000	-	3,260,000	460,000
	<u>\$ 22,064,294</u>	<u>\$ 12,015,706</u>	<u>\$ 2,390,000</u>	<u>\$ 31,690,000</u>	<u>\$ 4,285,000</u>

During the year ended June 30, 2011, the Authority issued its Tax Increment Revenue Bonds, Series of 2010, in the amount of \$27,600,000, with a fixed interest rate of 3.42% for the first 84 months. After the fixed rate period, the interest rate will float at 70% of the Bank's primary rate until maturity. The floating rate will not exceed 6% or be less than 2.8%. This is a multi-draw, non-revolving, bullet loan for a term of approximately 9.5 years, with final maturity to occur on or before June 1, 2020. Interest only is due semi-annually on June 1 and December 1 of each year. Interest payments will be based on the outstanding balance at the time of billing. Annual principal payments will be made on December 1 of every year. All outstanding principal and interest will be due at maturity. The proceeds were used to fund public improvements at the 160-acre Bethlehem Works TIF District, including, but not limited to, relocating 1<sup>st</sup> Avenue, development of parking lots, plazas, and Levitt Pavilion and lawn, as well as other site infrastructure improvements; to refinance the Authority's 2000 HUD loan; to fund a debt service reserve fund; and to pay costs of issuance. As collateral, the Authority has pledged all revenues, receipts, and moneys derived from the Authority's portion of all tax increments generated from the taxable properties in the Bethlehem Works tax increment financing district.

During the year ended June 30, 2013, the Authority issued its Tax Increment Revenue Bonds, Series of 2012, in the amount of \$10,000,000, with a fixed interest rate of 2.98%. This is a multi-draw, non-revolving, amortizing loan for a term of approximately 7.5 years, with final maturity to occur on or before June 1, 2020. Interest only is due semi-annually on June 1 and December 1 of each year commencing June 1, 2013. Interest payments will be based on the outstanding balance at the time of billing. Annual principal payments will be made on December 1 of every year commencing December 1, 2015 through June 1, 2020. All outstanding principal and interest will be due at maturity. The proceeds were used to fund additional public improvements at the 160-acre Bethlehem Works TIF District, including, but

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

not limited to, the Hoover-Mason Trestle reconstruction, further development of parking lots and improvements, as well as other site infrastructure improvements; to fund a debt service reserve fund; and to pay costs of issuance. As collateral, the Authority has pledged all revenues, receipts, and moneys derived from the Authority's portion of all tax increments generated from the taxable properties in the tax increment financing district.

During the year ended June 30, 2013, the Authority issued its Tax Increment Revenue Bonds, Series of 2013, in the amount of \$3,500,000, with a fixed interest rate of 2.98%. This is a multi-draw, non-revolving, amortizing loan for a term of approximately seven years, with final maturity to occur on or before June 1, 2020. Interest only is due semi-annually on June 1 and December 1 of each year commencing June 1, 2013. Interest payments will be based on the outstanding balance at the time of billing. Annual principal payments will be made on December 1 of every year commencing December 1, 2015 through June 1, 2020. All outstanding principal and interest will be due at maturity. The proceeds were used to fund additional public improvements at the 160-acre Bethlehem Works TIF District, including, but not limited to, the Hoover-Mason Trestle reconstruction, further development of parking lots and improvements, as well as other site infrastructure improvements; to fund a debt service reserve fund; and to pay costs of issuance. As collateral, the Authority has pledged all revenues, receipts, and moneys derived from the Authority's portion of all tax increments generated from the taxable properties in the tax increment financing district.

Interest expense for the year ended June 30, 2015 was \$892,340.

Bonds payable are generally liquidated by the Bethlehem Works Fund.

Aggregate maturities required on long-term debt at June 30, 2015 are as follows:

Year Ending June 30,	Principal	Interest	Total Debt Service
2016	\$ 4,285,000	\$ 956,163	\$ 5,241,163
2017	4,430,000	815,244	5,245,244
2018	4,590,000	808,145	5,398,145
2019	4,475,000	768,851	5,243,851
2020	13,910,000	555,736	14,465,736
	\$ 31,690,000	\$ 3,904,139	\$ 35,594,139

Interest due on the Tax Increment Revenue Bonds, Series of 2010, is based on the interest rate in effect at June 30, 2015 of 3.42% through December 31, 2017 and the maximum rate of 6% thereafter through maturity.

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**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2015

**5. INTERFUND BALANCES AND TRANSFERS**

A reconciliation of the interfund balances as of June 30, 2015 is as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 25,865	\$ -
Bethlehem Works Fund	-	25,865
	\$ 25,865	\$ 25,865

Interfund balances are primarily for project management fees paid by the Bethlehem Works Fund for services performed by Authority employees charged to the General Fund which remain unpaid at June 30, 2015.

A reconciliation of the interfund transfers for the year ended June 30, 2015 is as follows:

Fund	Transfer In	Transfer Out
General Fund	\$ 856,909	\$ -
Bethlehem Works Fund	-	856,909
	\$ 856,909	\$ 856,909

Transfers are used to account for project management fees and other reimbursements charged by the General Fund.

**6. COMMITMENTS**

*Construction Commitments*

At June 30, 2015, the Authority has construction commitments related to the Hoover-Mason Trestle project of approximately \$123,000.

*ArtsQuest Lease*

During the year ended June 30, 2011, the Authority entered into a lease agreement with ArtsQuest. The Authority has leased to ArtsQuest certain property, including the Levitt Pavilion, the Bethlehem Landing Building, and the Improved Plazas. The initial term of the lease expires on June 1, 2020, unless terminated earlier. The initial term can be extended for one additional 10-year term upon written agreement by both parties. If the initial term is

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

extended for an additional 10-year renewal period, the lease is then subject to two additional 10-year renewals, which will automatically renew unless one party provides a written termination notice to the other at least one year in advance of the applicable renewal date. ArtsQuest is to surrender the assets upon the termination of this lease, in as good order and condition as they are at the start of the lease, ordinary wear and tear and depreciation excepted. Consideration for the lease was \$1.

### *Armory Rental Agreement*

During the year ended June 30, 2014, the Authority entered into a rental agreement with the Commonwealth of Pennsylvania (Commonwealth). The Commonwealth has leased to the Authority a parcel of land and two structures for a term of one year beginning on July 1, 2014. The rental of the premises will be \$1 per year for the first year. The rental agreement is to automatically remain in full force and effect for four additional one-year terms unless either party gives the other party notice of intent to terminate. After July 1, 2015, the rent shall be \$3,600 per year, which is due and payable by September 30 of the year to which it applies. All rental payments are to be credited toward the purchase price of \$272,000, if and when the Authority or the City elects to purchase the property. The Authority is responsible for payment of all utilities and other payments provided under the rental agreement.

### *Bethlehem Economic Development Corporation (BEDCO)*

During the year ended June 30, 2015, the Authority entered into a grant agreement with BEDCO for the Community Ambassador Program. According to the terms of the document, the Authority will pay BEDCO up to \$60,000 per year, for three years, to support the project.

## 7. COMPLIANCE

Under the debt agreements, the Authority is required to maintain certain minimum balances in its debt service reserve funds. At June 30, 2015, the Authority's balances in the debt service reserve funds and the related reserve requirements are as follows:

Debt Series	Balance at June 30, 2015	Reserve Requirement
2010	\$ 2,774,700	\$ 2,760,000
2012	12,057	1,000,000
2013	8,501	326,000

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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Deficiencies in the Debt Service Reserve Accounts are to be repaid from the Project TIF Account. On August 1, 2015, the Authority entered into the Fourth Supplemental Indenture of Trust, which amended the Debt Service Reserve Account replenishment provisions and allows the Authority up to two years to replenish the reserve account balance.

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

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

### 8. PENSION PLAN

#### Pennsylvania Municipal Retirement System

##### Plan Description

The Authority's pension plan is a single-employer defined benefit pension plan (plan) adopted pursuant to Act 15 of 1974. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer Public Employee Retirement System (PERS) that acts as a common investment and administrative agent for municipalities in the Commonwealth. PMRS issues a publicly available financial report that includes financial statements and required supplementary information for the PERS. The report may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, Pennsylvania 17108-1165.

##### Benefits Provided

Act 205 of the Pennsylvania Municipal Retirement Law grants the authority to establish and amend the benefit terms to the Board.

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

*Normal Retirement* – Members who retire at age 55 are entitled to a basic annual retirement benefit that shall be equal to 2.5% of the member's final average salary multiplied by all years of credited service, but in no event is the basic benefit greater than 50% of final average salary. The final average salary is the annual average compensation earned and paid during the member's final five years of employment.

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

*Early Retirement* – Early retirement is available for any member who has been involuntarily terminated after eight years of service or who has separated voluntarily after twenty years of credited service. Early retirement benefits will be actuarially reduced for each year or partial year thereof that early retirement takes place prior to age 55.

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

*Disability Benefit* – In the instance of a service related disability, a 50% disability benefit is provided to a member who is unable to perform gainful employment regardless of age or service, offset by available worker’s compensation benefits. In the instance of a non-service related disability, a 30% disability benefit is provided to a member who has at least 10 years of service and who is unable to perform gainful employment.

*Cost-of-Living Adjustments* – The Authority has the option to award post-retirement adjustments based on investment performance.

### Plan Membership

Membership of the Plan consisted of the following at June 30, 2015:

Active employees	2
Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	-
Total	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 50px;"></div> 5

### Contributions

The Authority’s funding policy is to fund the minimum Plan requirement computed in accordance with Act 205 in 1984, the Municipal Pension Plan Fund Standard and Recovery Act. The Authority’s funding policy requires that annual contributions be based upon the Plan’s Minimum Municipal Obligation (MMO), which are actuarially determined rates that should result in the accumulation of assets that are sufficient to pay benefits when due. All full-time employees are required to contribute five and a half percent of their annual covered salary to the System. The MMO for the year ended June 30, 2014 was \$18,097. During the year ended June 30, 2014, the Authority made a contribution to the Plan in the amount of \$18,486. The MMO for the year ended June 30, 2015 was \$27,007. During the year ended June 30, 2015, the Authority made a contribution to the Plan in the amount of \$29,304.



**REDEVELOPMENT AUTHORITY OF  
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**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2015

Changes in the Net Pension Liability

The changes in the net pension liability of the Authority for the year ended June 30, 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2014 (based on the measurement date of December 31, 2013)	\$ 912,330	\$ 796,538	\$ 115,792
Changes for the year:			
Service cost	21,777	-	21,777
Interest	49,383	-	49,383
Differences between expected and actual experience	19,796	-	19,796
Contributions - employer	-	18,097	(18,097)
Contributions - employees	-	8,304	(8,304)
Net investment income	-	50,638	(50,638)
Benefit payments, including refunds	(73,458)	(73,458)	-
Administrative expense	-	(1,746)	1,746
Net changes	17,498	1,835	15,663
Balances at June 30, 2015 (based on the measurement date of December 31, 2014)	\$ 929,828	\$ 798,373	\$ 131,455
Plan fiduciary net position as a percentage of the total pension liability			85.9%

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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*Actuarial Assumptions* – The total pension liability was based on the actuarial valuation performed on January 1, 2015 with liabilities measured at December 31, 2014, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:

Investment rate of return	5.5%
Projected salary increases	3.0% - 8.3%*
* includes inflation rate of 3%	
Cost of living adjustments	3.0%

Actuarial assumptions based on PMRS Experience Study for the period  
January 1, 2005 to December 31, 2008

Pre-retirement mortality:

Males: RP 2000 with 1 year set back

Females: RP 2000 with 5 year set back

Post-retirement mortality:

Males and females: RP-2000 Sex-Distinct Mortality Table

*Long-Term Expected Rate of Return* – The PMRS System’s (System) long-term expected rate of return on plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole, and at different levels of probability or confidence. There are four steps to the method:

1. Expected future real rates of return are based primarily on the 20-year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific asset classes if, in the PMRS Board’s opinion, any such asset classes are expected in the future to significantly vary from its 20-year historical returns.
2. The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of 3% to produce real rates of return.
3. The real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations. The results from steps 1 through 3 are presented in the chart labeled “System Nominal and Real Rates of Return by Asset Class.”
4. These weighted real rates of return are then subjected to a probability simulation to understand the likelihood of success in achieving various portfolio return levels. Based on the most recent asset allocation study, the minimum acceptable confidence level for the PMRS Board has been determined to be 70%. The chart labeled “Confidence Levels

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

for System Nominal and Real Rates of Return” identifies simulated portfolio returns at various confidence levels.

The following are the System Nominal and Real Rates of Return by Asset Class as of December 31, 2015:

Asset Class	Target Allocation	Nominal Rate of Return	Long-Term Expected Real Rate of Return
Domestic equity (large capitalized firms)	25.0%	11.7%	8.7%
Domestic equity (small capitalized firms)	15.0%	11.4%	8.4%
International equity (developed markets)	15.0%	7.6%	4.6%
International equity (emerging markets)	10.0%	11.1%	8.1%
Real estate	20.0%	9.7%	6.7%
Fixed income	15.0%	2.0%	-1.0%
Total portfolio	<u>100.0%</u>	<u>9.2%</u>	<u>6.2%</u>

The following are the Confidence Levels for System Nominal and Real Rates of Return as of December 31, 2015:

Confidence Interval	Nominal Rate of Return	Long-Term Expected Real Rate of Return
95.0%	4.7%	1.7%
90.0%	5.7%	2.7%
85.0%	6.4%	3.4%
80.0%	6.9%	3.9%
75.0%	7.4%	4.4%
70.0%	7.8%	4.8%
50.0%	9.2%	6.2%

Based on the four-part analysis, the PMRS Board established the System’s long-term expected rate of return at 7.5%.

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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In addition to determining the System's long-term expected rate of return, PMRS also develops a long-term expected rate of return for individual participating municipalities. The long-term expected rate of return for individual participating municipalities is also referred to as the regular interest rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the PMRS Board is obligated to apply the regular interest rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. Therefore, under the law, the long-term expected rate of return for individual participating municipalities is equal to the regular interest rate. The rationale for the difference between the System's long-term expected rate of return and the individual participating municipalities' regular interest rate is described in the section below labeled "Discount Rate." As of December 31, 2014, this rate is equal to 5.5%.

The System's policy in regard to the investment income allocation on invested assets is established and may be amended by the PMRS Board. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of PMRS.

*Discount Rate* – While it is often common practice to establish an actuarial discount rate that is equal to the long-term expected rate of return, PMRS is required by law (Act 15 of 1974) to establish a discount rate equal to the regular interest rate. The PMRS Board establishes the regular interest rate on the basis of expected stable and consistent earnings on investments to be applied to the accounts of the individual participating municipalities and includes the accounts of plan participants, municipalities, and plan retirees each year. The PMRS Board considers the following five quantitative factors in establishing the regular interest rate:

1. Retiree plan liability as a percentage of total plan liability,
2. Active plan participant liability as a percentage of total plan liability,
3. Smoothed Pension Benefit Guarantee Corporation (PBGC) annuity rates,
4. PMRS System long-term expected rate of return, and
5. PMRS administrative expenses.

The regular interest rate is equal to the retiree liability percentage times the smoothed PBGC annuity rates, plus the active employee liability percentage times the System long-term expected rate of return, less administrative expenses as a percentage of assets.

The PMRS Board may then adjust the regular interest rate derived from the formula due to a variety of qualitative factors such as the desire to minimize regular interest rate volatility,

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# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

trending of PBGC annuity rates, total PMRS actuarial and market value funding ratios, feedback from existing PMRS municipalities, and recommendations from the System's investment and actuarial consultants. The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2014 was 5.5%.

This required equivalence between the regular interest rate and the actuarial discount rate will likely result in a System long-term expected rate of return that will be higher than the actuarial discount rate and higher than the long-term expected rate of return for individual participating municipalities. Should the System experience a prolonged period of investment returns in excess of the regular interest rate, the PMRS Board is authorized to allocate any applicable portion of any such excess in accordance with PMRS Board policies.

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

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* – The following presents the net pension liability of the Plan calculated using the discount rates described above, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rates:

1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
\$ 227,456	\$ 131,455	\$ 48,784

**REDEVELOPMENT AUTHORITY OF  
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**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2015

Pension Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Authority recognized pension expense of \$25,080. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,847	\$ -
Authority contributions subsequent to the measurement date	20,255	-
Net difference between projected and actual earnings on pension plan investments	-	6,166
Total	\$ 35,102	\$ 6,166

The effect of the differences in the Authority's expected and actual experience is recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Authority contributions subsequent to the measurement date, in the amount of \$20,255, will be recorded as a reduction to the pension liability during the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended June 30,	
2016	\$ 3,408
2017	3,408
2018	3,408
2019	(1,543)
	\$ 8,681

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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### 9. SUBSEQUENT EVENT

#### *Tax Increment Revenue Bonds, Series of 2015*

In August 2015, the Authority issued the Tax Increment Revenue Bonds, Series of 2015, in the amount of \$2,465,000. The bonds are secured by the revenues, receipts, and moneys derived from the Authority's portion of all tax increments generated from the taxable properties in the TIF District. Proceeds from the bonds are to be used to fund additional public improvements at the 160-acre Bethlehem Works TIF District, including, but not limited to, the Hoover-Mason Trestle reconstruction, further development of parking lots and improvements, as well as other site infrastructure improvements; to fund a debt service reserve fund; and to pay costs of issuance.



**Required Supplementary  
Information**

# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CHANGES IN THE PENSION PLAN'S NET PENSION LIABILITY AND RELATED RATIOS

	2015*
<b>Total Pension Liability:</b>	
Service cost	\$ 21,777
Interest	49,383
Benefit payments, including refunds	(73,458)
Differences between expected and actual experience	19,796
<b>Net Changes in Total Pension Liability</b>	17,498
<b>Total Pension Liability - Beginning</b>	912,330
<b>Total Pension Liability - Ending (a)</b>	\$ 929,828
<b>Plan Fiduciary Net Position:</b>	
Contributions - employer	\$ 18,097
Contributions - employees	8,304
Net investment income	50,638
Benefit payments, including refunds	(73,458)
Administrative expense	(1,746)
<b>Net Change in Plan Fiduciary Net Position</b>	1,835
<b>Plan Fiduciary Net Position - Beginning</b>	796,538
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 798,373
<b>Net Pension Liability - Ending (a-b)</b>	\$ 131,455
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	85.9%
<b>Covered Employee Payroll</b>	\$ 156,502
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	84.00%

\* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years only for which information is available.

See accompanying note to required supplementary information.



# REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2015

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### 1. ACTUARIAL METHODS AND ASSUMPTIONS

The information presented in the required supplementary information was determined as part of the actuarial valuation at the date indicated. Methods and assumptions used to determine the contribution rate required under Act 205 for the year ended December 31, 2014 (presented as the subsequent year on the preceding schedules) are as follows:

Actuarial valuation date	1/1/2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	Based on periods in Act 205
Asset valuation method	Based on the municipal reserves
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	age related scale with merit and inflation component
Underlying inflation rate	3.0%
Cost of living adjustment increase	3.0%
Pre-retirement mortality:	
Males: RP 2000 with 1 year set back	
Females: RP 2000 with 5 year set back	
Post-retirement mortality:	
Males and females: Sex distinct RP 2000 Combined Healthy Mortality	

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Board of Directors  
Redevelopment Authority of  
the City of Bethlehem

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Redevelopment Authority of the City of Bethlehem (Authority), a component unit of the City of Bethlehem, as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and one other deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Authority's internal control to be material weaknesses:

#### **MAINTAINING ACCURATE ACCOUNTING RECORDS**

The Authority does not have the internal resources to prepare its financial statements and lacks the time and resources to prevent, detect, and correct misstatements. Numerous audit entries were proposed to record transactions to accounts receivable, to record capital assets additions, and to record accounts payable and retainage payable. We recommend that the Authority establish review and reconciliation procedures for all funds to determine if there are adjustments required to be made on a monthly or quarterly basis.

#### **INSTITUTING INTERNAL CONTROL OVER COMPLIANCE REQUIREMENTS**

During the year ended June 30, 2015, the Authority was in violation of certain debt agreement requirements relating to the minimum balance requirement in its debt service reserve funds. Due

to the complex nature of the requirements of the Authority, it is imperative that the Authority summarize the applicable compliance requirements and develop a timetable to assist in meeting those requirements.

### **SEGREGATING ACCOUNTING DUTIES**

A strong internal control requires that duties be segregated so that one person does not control all aspects of an accounting function. The small staff size at the Authority makes it impractical to fully segregate duties related to certain activities. However, when duties are not properly segregated, there is an increased risk that errors and irregularities may occur but not be detected. In order to reduce the risk associated with this situation, responsibility for the processing of cash receipts, cash disbursements, and payroll and the bank reconciliation process should be separated among different individuals to the extent possible. We recommend that the Authority review internal control procedures in order to properly segregate incompatible functions to the fullest extent possible.

\* \* \* \* \*

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a significant deficiency:

### **APPROVING OR RATIFYING CHANGE ORDERS**

The Authority has entered into significant construction contracts. The original contracts are bid by the Authority, or its agent, and the winning contract is approved by the Board of Directors (Board). The Board also approves individual payments to contractors throughout the contract period based on a spreadsheet provided by the Authority. However, change orders to contracts are not explicitly approved by the Board. We recommend that the Authority adopt a policy that the Board explicitly approve or ratify all change orders over a certain threshold.

\* \* \* \* \*

In addition, we noted other matters involving internal control and its operation as follows:

### **IMPLEMENTING A COMPUTERIZED ACCOUNTING SYSTEM**

The Authority's accounting system is maintained on manual ledgers, with spreadsheets used to support certain aspects of the system. This use of manual ledgers is time consuming and inefficient. We recommend that the Authority consider implementing a computerized accounting system that will incorporate as much of the information maintained in the manual ledgers and spreadsheets as possible. Typically, systems are run simultaneously for a period of a few months,

in order to verify that all information is being reported accurately and provides the necessary reporting capabilities.

#### **DOCUMENTING BUSINESS PURPOSE OF EMPLOYEE EXPENSE REIMBURSEMENTS**

The Authority has a policy to reimburse employees for business expenses. However, employee expense reimbursement requests do not consistently have documentation of the business purpose related to the expense. Without a business purpose, the Internal Revenue Service could determine that these reimbursements actually represent additional salary, thus making them subject to payroll taxes. We recommend that the Authority require all expense reimbursement requests to contain the business purpose.

#### **ADOPTING A CAPITAL ASSET POLICY**

There is currently not a written capitalization policy to guide Authority personnel to differentiate between amounts that should be capitalized or recorded as Authority supplies or maintenance and repair expenses. Nor is there a formal policy regarding estimated capital asset lives. We recommend that a written policy be adopted to help facilitate consistent treatment of capital assets.

#### **ADOPTING A FUND BALANCE/NET POSITION FLOW POLICY**

The Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. The Authority does not have a formal policy establishing a flow assumption for restricted and unrestricted fund balances, nor for the authority to assign fund balance amounts. Additionally, the Authority does not have a formal policy establishing a flow assumption for restricted and unrestricted net position. We recommend that the Authority formally adopt a policy establishing a flow assumption for restricted and unrestricted fund balance and net position and the authority to assign fund balance amounts.

#### **DEVELOPING AN ACCOUNTING POLICIES AND PROCEDURES MANUAL**

The Authority does not have a comprehensive accounting policies and procedures manual (manual). Such a manual is a valuable reference tool for the Board, management, and staff. It also serves as an effective training tool to new employees with accounting-related duties.



When developing this manual, we recommend that the following items be included:

- An organizational chart.
- The duties and responsibilities of employees with accounting and accounting-related duties.
- The responsibilities of the Board and the accounting staff, regarding financial reporting.
- Detailed explanations and illustrations of accounting policies and procedures. These policies and procedures should be accompanied by flowcharts for additional reference.
- Copies of standard forms used by the accounting department.
- A detailed chart of accounts, which provides general ledger account names, numbers, and a brief description of the account.
- Expense allocation policies and procedures for expenses allocated between grantors or funding sources.
- Monthly, quarterly, and annual fiscal procedures, regarding the closing of the Authority's general ledger and financial reporting requirements.

Once completed, we recommend that the manual be reviewed and updated periodically, as necessary.

#### **DEVELOPING A DISASTER RECOVERY PLAN**

The Authority uses the City of Bethlehem's computer system and information technology department resources. However, because the Authority's accounting system is manual, there is no "back-up" of information maintained in the Authority's manual ledgers. We recommend that, until such time as the Authority implements a computerized accounting system, the Authority review their back-up procedures and develop a written disaster recovery plan. Such a plan would include procedures for restoration of critical information and back-up and storage procedures.

#### **GASB STATEMENT NO. 72, "FAIR VALUE MEASUREMENT AND APPLICATION"**

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

To determine a fair value measurement, a government should consider the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards. For example, the unit of account for investments held in a brokerage

account is each individual security, whereas the unit of account for an investment in a mutual fund is each share in the mutual fund held by a government.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

A fair value measurement takes into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an asset, a government should be able to use the fair value of that asset to measure the fair value of the liability.

This Statement requires additional analysis of fair value if the volume or level of activity for an asset or liability has significantly decreased. It also requires identification of transactions that are not orderly. Quoted prices provided by third parties are permitted, as long as a government determines that those quoted prices are developed in accordance with the provisions of this Statement.

This Statement generally requires investments to be measured at fair value. An investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is

permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

***GASB STATEMENT NO. 73, "ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS AND RELATED ASSETS THAT ARE NOT WITHIN THE SCOPE OF GASB STATEMENT 68, AND AMENDMENTS TO CERTAIN PROVISIONS OF GASB STATEMENTS 67 AND 68"***

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, "*Financial Reporting for Pension Plans*," and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial

statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and 68 with regard to the following issues:

- Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported
- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions
- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

***GASB STATEMENT NO. 76, "THE HEIRARCHY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR STATE AND LOCAL GOVERNMENT"***

The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.”*

This Statement is effective for fiscal years beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

\* \* \* \* \*

Board of Directors  
Redevelopment Authority of  
the City of Bethlehem  
Management Letter  
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We already discussed these comments and suggestions with Authority personnel. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Authority, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Maheer Duessel*

Harrisburg, Pennsylvania  
June 16, 2016