Redevelopment Authority of the City of Bethlehem
(A Component Unit of the City of Bethlehem)

Financial Statements

Year Ended June 30, 2018
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

YEAR ENDED JUNE 30, 2018

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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, 2018, 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, 2018, 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.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension information on pages 27 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 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.

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
March 1, 2019

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

STATEMENT OF NET POSITION

JUNE 30, 2018

Assets	Governmental Activities
Current assets:	
Cash and cash equivalents	$ 82,744
Restricted cash and cash equivalents	2,781,294
Restricted investments	7,647,258
Receivables	46,697
Property held for sale	347,000
Total current assets	10,904,993
Non-current assets:	
Capital assets, being depreciated, net	28,856,757
Total non-current assets	28,856,757
Total Assets	39,761,750
Deferred Outflows of Resources	
Deferred outflows of resources for pension	60,632
Liabilities	
Current liabilities:	
Accounts payable	15,310
Escrow deposit	352,000
Accrued interest payable	55,338
Current portion of bonds payable	4,910,000
Total current liabilities	5,332,648
Non-current liabilities:	
Bonds payable	15,045,000
Net pension liability	89,001
Total non-current liabilities	15,134,001
Total Liabilities	20,466,649
Deferred Inflows of Resources	
Deferred inflows of resources for pension	95,790
Net Position	
Net investment in capital assets	18,878,222
Unrestricted	381,721
Total Net Position	$ 19,259,943

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, 2018

Functions/Programs:	Expenses	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities:				
Community development	$ 8,885,108	$ 164,519	$ 12,730,032	$ 4,009,443
Total Governmental Activities	$ 8,885,108	$ 164,519	$ 12,730,032	4,009,443
General revenues:				
Interest income				41,431
Total general revenues				41,431
Change in Net Position				4,050,874
Net Position:				
Beginning of year				15,209,069
End of year				$ 19,259,943

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

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2018

	General	Bethlehem Works	Total
Assets			
Cash and cash equivalents	$ 82,744	$ -	$ 82,744
Restricted cash and cash equivalents	-	2,781,294	2,781,294
Restricted investments	-	7,647,258	7,647,258
Due from other funds	452,087	-	452,087
Receivables	46,697	-	46,697
Property held for sale	347,000	-	347,000
Total Assets	$ 928,528	$ 10,428,552	$ 11,357,080
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	$ 15,310	$ -	$ 15,310
Escrow deposit	352,000	-	352,000
Due to other funds	-	452,087	452,087
Total Liabilities	367,310	452,087	819,397
Fund Balance:			
Restricted:			
TIF projects	-	9,976,465	9,976,465
Unassigned	561,218	-	561,218
Total Fund Balance	561,218	9,976,465	10,537,683
Total Liabilities and Fund Balance	$ 928,528	$ 10,428,552	$ 11,357,080

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, 2018

Total Fund Balance - Governmental Funds	$ 10,537,683
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.	28,856,757
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	(55,338)
Bonds payable	(19,955,000)
Net pension liability, net of related deferred outflows and inflows of resources	(124,159)
Total Net Position - Governmental Activities	$ 19,259,943

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, 2018

	General	Bethlehem Works	Total
Revenues:			
Program revenue	$ 112,410	$ -	$ 112,410
TIF collections	-	12,730,032	12,730,032
Miscellaneous income	52,109	-	52,109
Investment income	-	41,431	41,431
Total revenues	164,519	12,771,463	12,935,982
Expenditures:			
Current:			
Program expenditures	549,312	371,551	920,863
TIF rebate	-	5,641,787	5,641,787
Debt service:			
Principal	-	5,680,000	5,680,000
Interest	-	752,135	752,135
Total expenditures	549,312	12,445,473	12,994,785
Excess (Deficiency) of Revenues over Expenditures	(384,793)	325,990	(58,803)
Other Financing Sources (Uses):			
Debt issued	-	84,298	84,298
Transfers in	289,325	-	289,325
Transfers out	-	(289,325)	(289,325)
Total other financing sources (uses)	289,325	(205,027)	84,298
Net Change in Fund Balance	(95,468)	120,963	25,495
Fund Balance:			
Beginning of year	656,686	9,855,502	10,512,188
End of year	$ 561,218	$ 9,976,465	$ 10,537,683

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, 2018

Net Change in Fund Balance - Governmental Funds		$ 25,495
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. In addition, construction in progress for a parking garage was transferred to Bethlehem Parking Authority.		
Transfer to Bethlehem Parking Authority	$ (941,381)	
Depreciation expense	(645,125)	(1,586,506)
Debt 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	5,680,000	
Issuance of debt	(84,298)	5,595,702
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		12,752
Change in net pension liability, net of related deferred outflows and inflows of resources		3,431
Change in Net Position - Governmental Activities		$ 4,050,874

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

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, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange transactions are recognized in accordance with the requirements of applicable Governmental Accounting Standards Board (GASB) pronouncements.

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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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. Program 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.

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.

The Authority is not required to adopt a budget for these funds.

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. Short-term commercial paper issued by a public corporation.

4. Banker's acceptances.

5. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations, and credit unions.

6. General obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency, or of any Pennsylvania political subdivision.

7. 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. The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

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 recorded at acquisition value at the date of donation. Acquisition value is the price that the Authority would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. 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:

Description	Estimated Lives
Buildings	40 - 50 years

Deferred Outflows and Inflows of Resources for Pension

In conjunction with pension accounting requirements, the differences in the Authority's expected and actual experience, the changes in assumptions, the difference between projected and actual earnings on pension plan investments, and Authority contributions subsequent to the measurement date are recorded as deferred outflows and inflows 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.

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.

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.

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, 2018. 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.

Pending Changes in Accounting Principles

In June of 2017, the GASB issued Statement No. 87, *"Leases."* This Statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for the Authority's June 30, 2021 financial statements.

In May of 2017, the GASB issued Statement No. 88, *"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements."* This Statement improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of GASB Statement No. 88 are effective for the Authority's June 30, 2019 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, 2018, the Authority's book balance was $2,864,038 and the bank balance was $2,904,654. Of the bank balance at June 30, 2018, $123,485 was covered by federal depository insurance and $2,781,169 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 Authority's investments are considered Level 1 based on quoted market prices. The fair value of the Authority's money market funds at June 30, 2018 was $7,647,258.

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, 2018, 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.

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, 2018.

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, 2018, 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, 2018 were as follows:

	June 30, 2017	Additions	Retirements	June 30, 2018
Capital assets, not being depreciated:				
Construction in progress	$ 941,381	$ -	$ (941,381)	$ -
Capital assets, being depreciated:				
Buildings	31,267,155	-	-	31,267,155
Total capital assets, being depreciated	31,267,155	-	-	31,267,155
Less accumulated depreciation for:				
Buildings	1,765,273	645,125	-	2,410,398
Total accumulated depreciation	1,765,273	645,125	-	2,410,398
Total capital assets being depreciated, net	29,501,882	(645,125)	-	28,856,757
Total capital assets, net	$ 30,443,263	$ (645,125)	$ (941,381)	$ 28,856,757

As of June 30, 2017, the Authority had incurred $941,381 for the initial stages of construction of a parking garage. During the year ended June 30, 2018, the Bethlehem Parking Authority assumed responsibility for the parking garage project and, therefore, all costs were transferred from the Authority to the Bethlehem Parking Authority.

4. Long-Term Debt

Long-term debt activity for the year ended June 30, 2018 consisted of the following:

Bonds	Balance Outstanding June 30, 2017	Additions	Reductions	Balance Outstanding June 30, 2018	Due Within One Year
Tax Increment Revenue Bonds,					
Series of 2010	$ 13,400,000	$ -	$ 2,645,000	$ 10,755,000	$ 2,460,000
Series of 2012	7,190,000	-	1,470,000	5,720,000	1,515,000
Series of 2013	2,335,000	-	480,000	1,855,000	490,000
Series of 2015	2,060,000	-	435,000	1,625,000	445,000
Series of 2016	565,702	84,298	650,000	-	-
	$ 25,550,702	$ 84,298	$ 5,680,000	$ 19,955,000	$ 4,910,000

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 1st 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 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.

During the year ended June 30, 2016, the Authority issued its Tax Increment Revenue Bonds, Series of 2015, in the amount of $2,465,000, with a fixed interest rate of 2.65%. This is a multi-draw, non-revolving, amortizing loan for a term of approximately five 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, 2016. 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, 2016 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.

During the year ended June 30, 2017, the Authority issued its Subordinated Federally Taxable Tax Increment Revenue Bonds, Series of 2016, in the amount of $650,000, with a fixed interest rate of 3.60%. This is a multi-draw, non-revolving, amortizing loan with final maturity to occur on or before June 1, 2018. Interest only is due semi-annually on June 1 and December 1 of each year commencing June 1, 2017. Interest payments will be based on the outstanding balance at the time of billing. All outstanding principal and interest will be due at maturity. The proceeds were used to finance project costs of the TIF district. 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, 2018 was $739,383.

Bonds payable are generally liquidated by the Bethlehem Works Fund.

Aggregate maturities required on long-term debt at June 30, 2018 are as follows:

Year Ending June 30,	Principal	Interest	Total Debt Service
2019	$ 4,910,000	$ 804,527	$ 5,714,527
2020	15,045,000	580,009	15,625,009
	$ 19,955,000	$ 1,384,536	$ 21,339,536

Interest due on the Tax Increment Revenue Bonds, Series of 2010, is based on the maximum rate of 6% through maturity.

5. Interfund Balances and Transfers

A reconciliation of the interfund balances as of June 30, 2018 is as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	$ 452,087	$ -
Bethlehem Works Fund	-	452,087
	$ 452,087	$ 452,087

Interfund balances are primarily for cash flow purposes.

A reconciliation of the interfund transfers for the year ended June 30, 2018 is as follows:

Fund	Transfer In	Transfer Out
General Fund	$ 289,325	$ -
Bethlehem Works Fund	-	289,325
	$ 289,325	$ 289,325

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

6. Commitments

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 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 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 was $1 per year for the first year. The rental agreement was to automatically remain in full force and effect for four additional one-year terms unless either party gave the other party notice of intent to terminate. After July 1, 2015, the rent was $3,600 per year, which was due and payable by September 30 of the year to which it applies. All rental payments were to be credited toward the purchase price of $272,000, if and when the Authority or the City elected to purchase the property. The Authority was responsible for payment of all utilities and other payments provided under the rental agreement.

During the year ended June 30, 2017, the Authority elected to purchase the property and entered into an agreement to sell the property for the purchase price of $347,000. The Authority anticipated closing on both sales simultaneously. During the year ended June 30, 2018, the Authority purchased the property from the Commonwealth and received an advance on the sale from the developer in the amount of $347,000; however, settlement of the property to the developer did not occur until August 2018. Therefore, $347,000 is shown as the fair value of the property held for sale and as an escrow deposit on the Balance Sheet.

The Authority's property held for sale is considered Level 3 and is based on the subsequent sale price.

TIF Payments

In September 2017, the Authority approved the expenditure of $800,000 in TIF funding for eligible site development and site remediation expenses and that payments for the work will be made in three annual installments as follows: $300,000 in September 2017, $350,000 in July 2018, and $150,000 in July 2019. In August 2018, the final two installments were amended as follows: $250,000 in August 2018 and $250,000 in July 2019.

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. In October 2017, the Authority extended the term of the agreement to September 30, 2020. The extended agreement approved funding of $195,000 over the extended term ($65,000 per year).

Litigation

The Authority is involved in several lawsuits in the normal course of business. It is the opinion of management that any liabilities resulting from these proceedings would not materially affect the financial position of the Authority at June 30, 2018.

7. Compliance

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 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.

The plan provides retirement, disability, and death benefits to plan members and their beneficiaries as outlined in the plan document.

Plan Membership

Membership of the Plan consisted of the following at January 1, 2017, the most recent actuarial valuation:

Active employees	2
Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	-
Total	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 December 31, 2017 was $30,522. During the year ended June 30, 2017, the Authority made a contribution to the Plan in the amount of $29,754. The MMO for the year ended December 31, 2018 was $30,415. During the year ended June 30, 2018, the Authority made a contribution to the Plan in the amount of $30,442.

Changes in the Net Pension Liability

The changes in the net pension liability of the Authority for the year ended June 30, 2018 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2017 (based on the measurement date of December 31, 2016)	$ 1,018,434	$ 823,099	$ 195,335
Changes for the year:			
Service cost	23,589	-	23,589
Interest	52,803	-	52,803
Contributions - employer	-	30,522	(30,522)
Contributions - employees	-	9,125	(9,125)
Net investment income	-	145,234	(145,234)
Benefit payments, including refunds	(73,458)	(73,458)	-
Administrative expense	-	(2,155)	2,155
Net changes	2,934	109,268	(106,334)
Balances at June 30, 2018 (based on the measurement date of December 31, 2017)	$ 1,021,368	$ 932,367	$ 89,001
Plan fiduciary net position as a percentage of the total pension liability			91.3%

Actuarial Assumptions – The total pension liability was based on the actuarial valuation performed on January 1, 2017 with liabilities rolled forward to December 31, 2017 using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:	
Investment rate of return	5.25%
Projected salary increases	2.8% - 7.05%*
* includes inflation rate of 3%	
Cost-of-living adjustments	2.8%

Actuarial assumptions based on PMRS Experience Study for the period January 1, 2009 to December 31, 2013

Pre-retirement mortality:
Males: RP 2000 Male Non-Annuitant table projected 15 years with Scale AA
Females: RP 2000 Female Non-Annuitant table projected 15 years with Scale AA and then set back 5 years
Post-retirement mortality:
Males: RP 2000 Male Annuitant table projected 5 years with Scale AA
Females: RP 2000 Female Annuitant table projected 10 years with Scale AA

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 used by PMRS and an in-depth description of the process, including the anticipated rate of return by asset class, can be found at www.pmrs.state.pa.us. Based on the four-part analysis, the PMRS Board established the System's long-term expected rate of return at 7.3%. The rationale for the difference between PMRS's long-term expected rate of return and the discount rate can be found at www.pmrs.state.pa.us.

Discount Rate – The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2017 was 5.25%. The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System's long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

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 (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
$ 198,231	$ 89,001	$ (4,920)

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

For the year ended June 30, 2018, the Authority recognized pension expense of $27,010. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 19,369	$ -
Changes in assumptions	18,452	-
Authority contributions subsequent to the measurement date	22,811	-
Net difference between projected and actual earnings on pension plan investments	-	95,790
Total	$ 60,632	$ 95,790

The differences in the Authority's expected and actual experience and changes in assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Authority contributions subsequent to the measurement date, in the amount of $22,811, will be recorded as a reduction to the pension liability during the year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

Year ending June 30,	
2019	$ (2,682)
2020	(7,213)
2021	(27,965)
2022	(20,109)
	$ (57,969)

9. Conduit Debt

In January 2017, the Authority entered into a single bond issue for which it has limited liability. The Authority serves as a financing conduit. Although the Authority is a party to the trust indenture with the associated Trustee, the agreement is structured such that there is no recourse against the Authority in the case of default. As such, the corresponding debt is not reported in the Authority's balance sheet or statement of net position. At June 30, 2018, the conduit debt balance outstanding is $6,272,657.

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

	2018*	2017	2016	2015
Total Pension Liability:				
Service cost	$ 23,589	$ 23,110	$ 22,509	$ 21,777
Interest	52,803	51,724	50,385	49,383
Benefit payments, including refunds	(73,458)	(73,458)	(73,458)	(73,458)
Differences between expected and actual experience	-	38,737	-	19,796
Changes in assumptions	-	24,749	24,308	-
Net Changes in Total Pension Liability	2,934	64,862	23,744	17,498
Total Pension Liability - Beginning	1,018,434	953,572	929,828	912,330
Total Pension Liability - Ending (a)	$ 1,021,368	$ 1,018,434	$ 953,572	$ 929,828
Plan Fiduciary Net Position:				
Contributions - employer	$ 30,522	$ 27,449	$ 27,007	$ 18,097
Contributions - employees	9,125	9,191	8,592	8,304
Net investment income	145,234	84,414	19,218	50,638
Benefit payments, including refunds	(73,458)	(73,458)	(73,458)	(73,458)
Administrative expense	(2,155)	(2,311)	(1,918)	(1,746)
Net Change in Plan Fiduciary Net Position	109,268	45,285	(20,559)	1,835
Plan Fiduciary Net Position - Beginning	823,099	777,814	798,373	796,538
Plan Fiduciary Net Position - Ending (b)	$ 932,367	$ 823,099	$ 777,814	$ 798,373
Net Pension Liability - Ending (a-b)	$ 89,001	$ 195,335	$ 175,758	$ 131,455
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.3%	80.8%	81.6%	85.9%
Covered Employee Payroll	$ 165,905	$ 167,105	$ 156,218	$ 156,502
Net Pension Liability as a Percentage of Covered Employee Payroll	53.65%	116.89%	112.51%	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 notes to required supplementary information.

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

REQUIRED SUPPLEMENTARY INFORMATION -

SCHEDULE OF AUTHORITY PENSION CONTRIBUTIONS

	2018*	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution under Act 205	$ 30,522	$ 27,449	$ 27,007	$ 18,097	$ 17,598	$ -	$ -	$ -	$ -	$ 7,581
Contribution in relation to the actuarially determined contribution	30,522	27,449	27,007	18,097	17,598	-	-	-	-	7,581
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 165,905	$ 167,105	$ 156,218	$ 156,502						
Contributions as a percentage of covered employee payroll	18.40%	16.43%	17.29%	11.56%						

* 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 notes to required supplementary information.

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, 2017 (presented as the subsequent year on the preceding schedules) are as follows:

Actuarial valuation date	1/1/2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	Based on periods in Act 205
Asset valuation method	Based on the municipal reserves
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	Age related scale with merit and inflation component
Underlying inflation rate	3.0%
Postretirement cost-of-living adjustment increase	3%, subject to plan limitations

Preretirement mortality:
- Males: RP 2000 with 1 year set back
- Females: RP 2000 with 5 year set back

Postretirement mortality:
- Males and females: Sex distinct RP 2000 Combined Healthy Mortality

2. Changes in Actuarial Assumptions

The December 31, 2015 assumptions were based on the PMRS Experience Study for the period covering January 1, 2009 through December 31, 2013 issued by the actuary in July 2015 first effective.

The December 31, 2016 investment return assumption for municipal assets decreased from 5.50% to 5.25%.

MaherDuessel

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, for the year ended June 30, 2018. 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 11, 2018. 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 June 26, 2018, 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. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2018. 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 estimate affecting the Authority's financial statements was the estimated useful life of capital assets. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the 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 disclosure affecting the financial statements was Note 6, which discusses Authority commitments.

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.

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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, 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 March 1, 2019.

Management Consultations 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 historical 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.

This information is intended solely for the information and 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,

Maher Duessel

Harrisburg, Pennsylvania
March 1, 2019

MaherDuessel

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, 2018, 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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated March 1, 2019, on the financial statements of the Authority.

We have already discussed these comments and suggestions with various 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.

Maher Duessel

Harrisburg, Pennsylvania
March 1, 2019

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.

Implementing Standards and Interpretations of the Governmental Accounting Standards Board (GASB)

GASB Statement No. 87, *"Leases"*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

a. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option
b. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option

c. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option
d. Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

Lessees and lessors should reassess the lease term only if one or more of the following occur:

a. The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.
b. The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.
c. An event specified in the lease contract that requires an extension or termination of the lease takes place.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

An amendment to a lease contract should be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease.

A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

GASB Statement No. 88, *"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements"*

The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows.