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

Financial Statements

Year Ended June 30, 2022
with Independent Auditor's Report

MaherDuessel

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

YEAR ENDED JUNE 30, 2022

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Independent Auditor's Report

Board of Directors
Redevelopment Authority of the City of Bethlehem

Report on the Audit of the Financial Statements

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the

Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audits 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 opinions on the basic financial statements are not affected by this missing information.

Maher Duessel

Harrisburg, Pennsylvania
September 14, 2023

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

STATEMENT OF NET POSITION

JUNE 30, 2022

Assets	Governmental Activities
Current assets:	
Cash and cash equivalents	$ 804,135
Restricted cash and cash equivalents	235
Restricted investments	81,429
Receivables	65,750
Total current assets	951,549
Non-current assets:	
Capital assets, being depreciated, net	26,276,257
Net pension asset	223,676
Total non-current assets	26,499,933
Total Assets	27,451,482
Deferred Outflows of Resources	
Deferred outflows of resources for pension	45,974
Liabilities	
Current liabilities:	
Unearned revenue	502,000
Accounts payable	7,366
Total Liabilities	509,366
Deferred Inflows of Resources	
Deferred inflows of resources for pension	235,361
Net Position	
Net investment in capital assets	26,276,257
Unrestricted	476,472
Total Net Position	$ 26,752,729

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, 2022

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	$ 846,442	$ 116,895	$ -	$ (729,547)
Total Governmental Activities	$ 846,442	$ 116,895	$ -	(729,547)
General revenues (expenses):				
Interest income (loss)				556
Total general revenues				556
Change in Net Position				(728,991)
Net Position:				
Beginning of year				27,481,720
End of year				$ 26,752,729

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

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2022

	General	Bethlehem Works	Total
Assets			
Cash and cash equivalents	$ 804,135	$ -	$ 804,135
Restricted cash and cash equivalents	-	235	235
Restricted investments	-	81,429	81,429
Due from other funds	23,577	-	23,577
Receivables	65,750	-	65,750
Total Assets	$ 893,462	$ 81,664	$ 975,126
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	$ 7,366	$ -	$ 7,366
Unearned revenue	502,000	-	502,000
Due to other funds	-	23,577	23,577
Total Liabilities	509,366	23,577	532,943
Fund Balance:			
Restricted:			
TIF projects	-	58,087	58,087
Unassigned	384,096	-	384,096
Total Fund Balance	384,096	58,087	442,183
Total Liabilities and Fund Balance	$ 893,462	$ 81,664	$ 975,126

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, 2022

Total Fund Balance - Governmental Funds	$ 442,183
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.	26,276,257
Long-term liabilities, 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.	
Net pension asset, net of related deferred outflows and inflows of resources	34,289
Total Net Position - Governmental Activities	$ 26,752,729

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, 2022

	General	Bethlehem Works	Total
Revenues:			
Program revenue	$ 86,095	$ -	$ 86,095
Miscellaneous income	30,800	-	30,800
Investment income (loss)	-	556	556
Total revenues	116,895	556	117,451
Expenditures:			
Current:			
Program expenditures	247,796	32,902	280,698
Total expenditures	247,796	32,902	280,698
Excess Expenditures over Revenues	(130,901)	(32,346)	(163,247)
Other Financing Sources (Uses):			
Transfers in	33,326	-	33,326
Transfers out	-	(33,326)	(33,326)
Total other financing sources (uses)	33,326	(33,326)	-
Net Change in Fund Balance	(97,575)	(65,672)	(163,247)
Fund Balance:			
Beginning of year	481,671	123,759	605,430
End of year	$ 384,096	$ 58,087	$ 442,183

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, 2022

Net Change in Fund Balance - Governmental Funds		$ (163,247)
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.		
Depreciation expense	$ (645,125)	(645,125)
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 net pension asset, net of related deferred outflows and inflows of resources		79,381
Change in Net Position - Governmental Activities		$ (728,991)

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

<u>Government-Wide Financial Statements</u>

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 and investment income (loss) 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 (Tax Increment Financing) District. This program ended during the year ended June 30, 2021. The revenues ended but there are still expenses and still completing projects.

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.

Restricted Cash and Investments

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

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.

Receivables

Management has determined that all receivable are collectible, and no allowance for doubtful accounts has been reported.

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.

Unearned Revenue

The Authority receives funds in advance for various projects. These amounts are reported as unearned revenue until project expenses are incurred.

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, 2022. 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 Pronouncements

GASB has issued statements that will become effective in future years including 91 (Conduit Debt Obligations), 94 (Public-Private and Public-Public Partnerships), 96 (Information Technology Arrangements), 99 (Omnibus 2022), 100 (Accounting Changes and Error Corrections) and 101 (Compensated Absences). Management has not yet determined the impact of these statements on the financial statements.

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, 2022, the Authority's book balance was $804,370 and the bank balance was $818,050. Of the bank balance at June 30, 2022, $250,000 was covered by federal depository insurance and $568,050 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, 2022 was $81,429.

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, 2022, 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, 2022.

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, 2022, 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, 2022 were as follows:

	June 30, 2021	Additions	Retirements	June 30, 2022
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	4,345,773	645,125	-	4,990,898
Total accumulated depreciation	4,345,773	645,125	-	4,990,898
Total capital assets, net	$ 26,921,382	$ (645,125)	$ -	$ 26,276,257

4. Interfund Balances and Transfers

A reconciliation of the interfund balances as of June 30, 2022 is as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	$ 23,577	$ -
Bethlehem Works Fund	-	23,577
	$ 23,577	$ 23,577

Interfund balances are primarily for cash flow purposes.

A reconciliation of the interfund transfers for the year ended June 30, 2022 is as follows:

Fund	Transfer In	Transfer Out
General Fund	$ 33,326	$ -
Bethlehem Works Fund	-	33,326
	$ 33,326	$ 33,326

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

5. Commitments/Contingencies

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. This lease automatically renewed effective June 1, 2020. 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.

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, 2022.

Consulting Agreement

In March 2021, the Board approved a consulting agreement between the Authority and the retired Executive Director to continue fulfilling duties and responsibilities as the Authority's Executive Director for the period April 1, 2021 through February 28, 2022. In February 2022, per an amended agreement, the retired Executive Director will act in a consulting capacity, to supplement services/duties/responsibilities of the new Executive Director for the period of March 1, 2022 through December 31, 2022. The amended agreement approved payment for services in the amount of $12,000 for the year ended June 30, 2023. The agreement was amended again through December 31, 2023 for an additional $12,000.

Intergovernmental Cooperation Agreement

In August 2021, under Resolution 1489, the Authority entered into the Intergovernmental Cooperation Agreement with the City, which creates a Grant Program Manager position for the City. The Grant Program Manager will also have the responsibilities of the Authority's former Administrative Coordinator position and thus eliminates all employees at the Authority. The Grant Program Manager's salary will be paid by the City, with a portion of the salary being reimbursed by the Authority to the City. The Authority has no plans at this time of hiring additional employees. Thus, creating no salaries expense for the Authority, beyond this point.

TIF Program

As of June 30, 2022, the TIF program still had a restricted cash and cash equivalents and investment balances of $235 and $81,429, respectively. These funds are committed for remaining TIF related projects.

6. 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, 2021, 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, 2021 was $30,864. During the year ended June 30, 2021, the Authority made a contribution to the Plan in the amount of $24,068. The MMO for the year ended December 31, 2022 was $14,805. During the year ended June 30, 2022, the Authority made a contribution to the Plan in the amount of $22,521.

Changes in the Net Pension (Asset) Liability

The changes in the net pension (asset) liability of the Authority for the year ended June 30, 2022 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension (Asset) Liability
Balances at June 30, 2021 (based on the measurement date of December 31, 2020)	$ 1,143,167	$ 1,245,693	$ (102,526)
Changes for the year:			
Service cost	15,275	-	15,275
Interest	58,507	-	58,507
Contributions - employer	-	30,863	(30,863)
Contributions - employees	-	5,481	(5,481)
Net investment income	-	161,963	(161,963)
Benefit payments, including refunds	(89,185)	(89,185)	-
Administrative expense	-	(3,375)	3,375
Net changes	(15,403)	105,747	(121,150)
Balances at June 30, 2022 (based on the measurement date of December 31, 2021)	$ 1,127,764	$ 1,351,440	$ (223,676)
Plan fiduciary net position as a percentage of the total pension liability			119.8%

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation performed on January 1, 2021, with liabilities rolled to December 31, 2021, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:	
Investment rate of return	5.25%
Projected salary increases	2.80%-6.20%*
* includes inflation rate of 2.2%	
Post-retirement cost-of-living adjustments	2.20%, subject to plan limitations

Actuarial assumptions based on PMRS Experience Study for the period January 1, 2014 to December 31, 2018

Pre-retirement mortality:
Males: PUB-2010 General Employees male table
Females: PUB-2010 General Employees female table

Post-retirement mortality:
Males: RP 2006 Male Annuitant table
Females: RP 2006 Female Annuitant 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. The methodology used by the System 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 this methodology, the PMRS Board established the System's long-term expected rate of return at 7.42%. The rationale for the difference between the System'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, 2021 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 (Asset) Liability to Changes in the Discount Rate – The following presents the net pension (asset) liability of the Plan calculated using the discount rates described above, as well as what the Plan's net pension (asset) 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%)
$ (107,613)	$ (223,676)	$ (324,297)

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

For the year ended June 30, 2022, the Authority recognized pension expense of ($49,145).

At June 30, 2022, 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	$ 7,732	$ -
Changes in assumptions	23,437	-
Authority contributions subsequent to the measurement date	14,805	-
Net difference between projected and actual earnings on pension plan investments	-	235,361
Total	$ 45,974	$ 235,361

The differences in the Authority's expected and actual experience and changes of 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 will be recorded as a reduction to the pension liability during the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	
2023	$ (42,882)
2024	(85,386)
2025	(55,099)
2026	(20,825)
	$ (204,192)

7. Conduit Debt

In January 2017, the Authority entered into a single bond issue with ArtQuest for which it has limited liability. The Authority serves as a financing conduit. In June 2019, the Authority entered into a single bond issue with Moravian University for which it has limited liability. During the year ended June 30, 2022, this conduit bond issue with Moravian University was refunded. Although the Authority is a party to the trust indentures with the associated Trustees, the agreements are 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, 2022, the total conduit debt balance outstanding is $21,103,037.

REQUIRED SUPPLEMENTARY INFORMATION

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

REQUIRED SUPPLEMENTARY INFORMATION -

SCHEDULE OF CHANGES IN THE PENSION PLAN'S NET PENSION (ASSET) LIABILITY AND RELATED RATIOS

	2022*	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability:								
Service cost	$ 15,275	$ 26,019	$ 25,264	$ 24,297	$ 23,589	$ 23,110	$ 22,509	$ 21,777
Interest	58,507	54,214	53,876	52,994	52,803	51,724	50,385	49,383
Benefit payments, including refunds	(89,185)	(73,458)	(73,458)	(73,458)	(73,458)	(73,458)	(73,458)	(73,458)
Differences between expected and actual experience	-	23,196	-	12,002	-	38,737	-	19,796
Changes in assumptions	-	70,311	-	-	-	24,749	24,308	-
Net Changes in Total Pension Liability	(15,403)	100,282	5,682	15,835	2,934	64,862	23,744	17,498
Total Pension Liability - Beginning	1,143,167	1,042,885	1,037,203	1,021,368	1,018,434	953,572	929,828	912,330
Total Pension Liability - Ending (a)	$ 1,127,764	$ 1,143,167	$ 1,042,885	$ 1,037,203	$ 1,021,368	$ 1,018,434	$ 953,572	$ 929,828
Plan Fiduciary Net Position:								
Contributions - employer	$ 30,863	$ 34,544	$ 34,097	$ 30,415	$ 30,522	$ 27,449	$ 27,007	$ 18,097
Contributions - employees	5,481	9,969	9,679	9,398	9,125	9,191	8,592	8,304
Net investment income (loss)	161,963	222,791	200,448	(11,385)	145,234	84,414	19,218	50,638
Benefit payments, including refunds	(89,185)	(73,458)	(73,458)	(73,458)	(73,458)	(73,458)	(73,458)	(73,458)
Administrative expense	(3,375)	(2,341)	(1,794)	(2,121)	(2,155)	(2,311)	(1,918)	(1,746)
Net Change in Plan Fiduciary Net Position	105,747	191,505	168,972	(47,151)	109,268	45,285	(20,559)	1,835
Plan Fiduciary Net Position - Beginning	1,245,693	1,054,188	885,216	932,367	823,099	777,814	798,373	796,538
Plan Fiduciary Net Position - Ending (b)	$ 1,351,440	$ 1,245,693	$ 1,054,188	$ 885,216	$ 932,367	$ 823,099	$ 777,814	$ 798,373
Net Pension (Asset) Liability - Ending (a-b)	$ (223,676)	$ (102,526)	$ (11,303)	$ 151,987	$ 89,001	$ 195,335	$ 175,758	$ 131,455
Plan Fiduciary Net Position as a Percentage of the Total Pension (Asset) Liability	119.83%	108.97%	101.08%	85.35%	91.29%	80.82%	81.57%	85.86%
Covered Employee Payroll	$ 99,655	$ 181,248	$ 175,989	$ 170,882	$ 165,905	$ 167,105	$ 156,218	$ 156,502
Net Pension (Asset) Liability as a Percentage of Covered Employee Payroll	-224.45%	-56.57%	-6.42%	88.94%	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

	2022*	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarially determined contribution under Act 205	$ 30,863	$ 34,544	$ 34,097	$ 30,415	$ 30,522	$ 27,449	$ 27,007	$ 18,097	$ 17,598	$ -
Contribution in relation to the actuarially determined contribution	30,863	34,544	34,097	30,415	30,522	27,449	27,007	18,097	17,598	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 99,655	$ 181,248	$ 175,989	$ 170,882	$ 165,905	$ 167,105	$ 156,218	$ 156,502		
Contributions as a percentage of covered employee payroll	30.97%	19.06%	19.37%	17.80%	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, 2021 (presented as the subsequent year on the preceding schedules) are as follows:

Actuarial valuation date	1/1/2019
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	5.25%
Projected salary increases	Age related scale with merit and inflation component
Underlying inflation rate	2.8%
Post-retirement cost-of-living adjustment increase	2.2%, subject to plan limitations

Pre-retirement mortality:

Males: RP 2000 with Non-annuitant Male table projected 15 years with Scale AA

Females: RP 2000 with Non-annuitant Female table projected 15 years with Scale AA, setback five years

Post-retirement mortality:

Males: RP 2000 with Annuitant Male table projected 5 years with Scale AA

Females: RP 2000 with Annuitant Female table projected 10 years with Scale AA

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%.

Effective with the December 31, 2020 measurement date were the following assumption changes: the experience study was updated from period covering January 1, 2009 through December 31, 2013 to January 1, 2014 through December 31, 2018; mortality tables were updated from RP 2000 to PUB-2010 for pre-retirement and RP 2006 for post-retirement; post-retirement cost of living decreased from 2.8% to 2.2%; and projected salary increases were also adjusted.

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, 2022. 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 September 11, 2023. 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 11, 2022, our responsibility, as described by professional standards, is to express opinions about whether the financial 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 system of 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 2022. 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 were the estimated useful life of capital assets and actuarial assumptions in calculating pension liabilities (assets) and the related deferred outflows and inflows of resources. We evaluated the key factors and assumptions used to develop these estimates in determining that they are 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 Notes 5, 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. Material misstatements of accounts payable and other accruals, and net position, were corrected by management.

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 September 14, 2023.

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 Audit Findings or Issues

Matters involving internal controls and the Authority's operations are detailed in a separately issued management letter.

Other Matters

Required Supplementary Information

We applied certain limited procedures to the 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
September 14, 2023

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, 2022, 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 a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency in internal control to be a material weakness:

Improving Financial Reporting

During the audit process, various material adjustments were proposed to the Authority's records by the auditors. These adjustments were necessary to balance the trial balance, to adjust net position to match the prior year audited financial statements, and to adjust various accrual accounts to actual. We recommend that the Authority evaluate their current internal controls over financial reporting and identify areas for improvement that are most important for consistent and accurate financial reporting throughout the year.

In addition, we noted the following other matters during our audit:

Segregation of Duties – Cash Receipts

From the standpoint of internal control, certain functions or duties should not be performed by the same person. During the performance of our audit, we noted an instance where certain incompatible functions are being performed by the same person.

There is a lack of segregation of duties over the cash receipts process, in particular the receipt of physical checks. This lack of segregation of duties increases the risk of engaging in fraudulent activity and committing errors in financial reporting that may result in material misstatements, although the number of physical checks received by the Authority annually is not significant.

The Administrative Coordinator is responsible for physical checks received. The Administrative Coordinator receives, processes/deposits, and records the cash receipts received via the mail in the accounting software. We recommend that the Authority segregate these processes in order to avoid one individual who controls the cash collection, depositing of the checks, and posting to the general ledger.

Strengthening Information Technology Controls

During our review of information technology (IT) processes, procedures, and policies, we note the following best practice recommendations for enhancing internal controls over IT:

- A disaster recovery plan (DRP) is a documented structured approach for unplanned incidents which minimizes the effects of a disruption. The testing over the disaster recovery plan should be conducted yearly to ensure that the plan is effective and meets its intended goals and outcomes. Testing of the plan could include, but is not limited to, a plan review, tabletop test, a simulation test, or full disaster recovery test.
- Data owners should review users and user access permissions for all software systems that have an impact on the financial statements.

There is no written disaster recovery plan for the Authority's network and servers. There is also no written policy regarding the review of personnel access over sensitive software. This puts the Authority at risk for an unauthorized individual potentially having access to their integral programs. We recommend that the Authority work with the City to prepare a written disaster recovery plan that covers all information systems under the Authority's control.

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
September 14, 2023