

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

Financial Statements

Year Ended June 30, 2016 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good[®]
www.md-cpas.com

Communication to Those Charged with Governance

Board of Directors
Redevelopment Authority of
the City of Bethlehem

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Authority of the City of Bethlehem (Authority), a component unit of the City of Bethlehem, for the year ended June 30, 2016. 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 November 1, 2016. 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 15, 2016, 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, 2016. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

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

Disclosures

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

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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. 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.

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

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the

financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 20, 2017.

Management Consultation with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Other Matters

We applied certain limited procedures to the required pension information, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

* * * * *

Board of Directors
Redevelopment Authority of
the City of Bethlehem
Communication to Those Charged with Governance
Page 4 of 4

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

Very truly yours,

Maheer Duessel

Harrisburg, Pennsylvania
April 20, 2017

**REDEVELOPMENT AUTHORITY OF
THE CITY OF BETHLEHEM**

YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Statement of Net Position	1
Statement of Activities	2
Balance Sheet – Governmental Funds	3
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Notes to Financial Statements	7

Required Supplementary Information:

Schedule of Changes in the Pension Plan's Net Pension Liability and Related Ratios	28
Schedule of Authority Pension Contributions	29
Note to Required Supplementary Information	30

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, 2016, 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, 2016, 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 28 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Mahe Duessel

Harrisburg, Pennsylvania
April 20, 2017

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

STATEMENT OF NET POSITION

JUNE 30, 2016

Assets	Governmental Activities
Current assets:	
Cash and cash equivalents	\$ 333,571
Restricted cash and cash equivalents	153
Restricted investments	9,244,029
Receivables	41,851
Total current assets	9,619,604
Non-current assets:	
Capital assets, not being depreciated	921,840
Capital assets, being depreciated, net	30,147,007
Total non-current assets	31,068,847
Total Assets	40,688,451
Deferred Outflows of Resources	
Deferred outflows of resources for pension	63,608
Liabilities	
Current liabilities:	
Accounts payable	169,838
Accrued interest payable	79,276
Current portion of bonds payable	4,855,000
Total current liabilities	5,104,114
Non-current liabilities:	
Bonds payable	24,985,000
Net pension liability	175,758
Total non-current liabilities	25,160,758
Total Liabilities	30,264,872
Net Position	
Net investment in capital assets	9,928,191
Unrestricted	558,996
Total Net Position	\$ 10,487,187

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, 2016

Functions/Programs:	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:				
Community development	\$ 7,510,754	\$ 22,527	\$ 12,391,253	\$ 4,903,026
Total Governmental Activities	\$ 7,510,754	\$ 22,527	\$ 12,391,253	4,903,026
General revenues:				
Interest income				2,969
Total general revenues				2,969
Change in Net Position				4,905,995
Net Position:				
Beginning of year				5,581,192
End of year				\$ 10,487,187

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

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2016

<u>Assets</u>	<u>General</u>	<u>Bethlehem Works</u>	<u>Total</u>
Cash and cash equivalents	\$ 333,571	\$ -	\$ 333,571
Restricted cash and cash equivalents	-	153	153
Restricted investments	-	9,244,029	9,244,029
Due from other funds	375,000	-	375,000
Receivables	41,851	-	41,851
Total Assets	\$ 750,422	\$ 9,244,182	\$ 9,994,604
<u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable	\$ -	\$ 169,838	\$ 169,838
Due to other funds	-	375,000	375,000
Total Liabilities	-	544,838	544,838
Fund Balance:			
Restricted:			
TIF projects	-	8,699,344	8,699,344
Unassigned	750,422	-	750,422
Total Fund Balance	750,422	8,699,344	9,449,766
Total Liabilities and Fund Balance	\$ 750,422	\$ 9,244,182	\$ 9,994,604

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, 2016

Total Fund Balance - Governmental Funds \$ 9,449,766

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 31,068,847

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	(79,276)
Bonds payable	(29,840,000)
Net pension liability, net of related deferred outflows and inflows of resources	<u>(112,150)</u>

Total Net Position - Governmental Activities \$ 10,487,187

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, 2016

	General	Bethlehem Works	Total
Revenues:			
Intergovernmental	\$ 22,527	\$ -	\$ 22,527
TIF collections	-	12,391,253	12,391,253
Investment income	-	2,969	2,969
Total revenues	22,527	12,394,222	12,416,749
Expenditures:			
Current:			
Program expenditures	401,696	89,415	491,111
TIF rebate	-	5,299,667	5,299,667
Capital outlay	-	667,465	667,465
Debt service:			
Principal	-	4,315,000	4,315,000
Interest	-	1,071,399	1,071,399
Total expenditures	401,696	11,442,946	11,844,642
Excess (Deficiency) of Revenues over Expenditures	(379,169)	951,276	572,107
Other Financing Sources (Uses):			
Debt issued	-	2,465,000	2,465,000
Transfers in	272,983	-	272,983
Transfers out	-	(272,983)	(272,983)
Total other financing sources (uses)	272,983	2,192,017	2,465,000
Net Change in Fund Balance	(106,186)	3,143,293	3,037,107
Fund Balance:			
Beginning of year	856,608	5,556,051	6,412,659
End of year	\$ 750,422	\$ 8,699,344	\$ 9,449,766

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, 2016

Net Change in Fund Balance - Governmental Funds \$ 3,037,107

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 667,465	
Depreciation expense	<u>(645,125)</u>	22,340

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

Repayment of principal	4,315,000	
Issuance of debt	<u>(2,465,000)</u>	1,850,000

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		6,179
Change in net pension liability, net of related deferred outflows and inflows of resources		<u>(9,631)</u>

Change in Net Position - Governmental Activities \$ 4,905,995

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

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activity

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

Reporting Entity

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Government-Wide Financial Statements

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

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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. Intergovernmental revenue, Tax Increment Financing (TIF) collections, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and thus have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Authority. Expenditures generally are recorded when a liability is incurred.

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

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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.

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

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

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

Deferred Outflows of Resources for Pension

In conjunction with pension accounting requirements, the effect of the differences in the Authority's expected and actual experience, the changes in assumptions, the difference between projected and actual earnings on pension plan investments, and Authority

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

contributions subsequent to the measurement date are recorded as deferred outflows of resources related to pension on the government-wide financial statements. These amounts are determined based on the actuarial valuation performed for the pension plan. Note 8 presents additional information about the pension plan.

Long-term Debt

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

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:

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

- 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, 2016. 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.

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, 2016, the Authority's book balance was \$333,724 and the bank balance was \$329,424. Of the bank balance at June 30, 2016, \$250,000 was covered by federal depository insurance and \$79,424 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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, 2016 was \$9,244,029.

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, 2016, 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, 2016.

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, 2016, the Authority's money market funds have a maturity of less than one year.

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

3. CAPITAL ASSETS

The changes in the Authority's capital assets for the year ended June 30, 2016 were as follows:

	June 30, 2015	Additions	Retirements	June 30, 2016
Capital assets, not being depreciated:				
Construction in progress	\$ 917,782	\$ 4,058	\$ -	\$ 921,840
Capital assets, being depreciated:				
Buildings	30,603,748	663,407	-	31,267,155
Total capital assets, being depreciated	30,603,748	663,407	-	31,267,155
Less accumulated depreciation for:				
Buildings	475,023	645,125	-	1,120,148
Total accumulated depreciation	475,023	645,125	-	1,120,148
Total capital assets being depreciated, net	30,128,725	18,282	-	30,147,007
Total capital assets, net	<u>\$ 31,046,507</u>	<u>\$ 22,340</u>	<u>\$ -</u>	<u>\$ 31,068,847</u>

4. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2016 consisted of the following:

Bonds	Balance Outstanding June 30, 2015	Additions	Reductions	Balance Outstanding June 30, 2016	Due Within One Year
Tax Increment Revenue Bonds,					
Series of 2010	\$ 18,430,000	\$ -	\$ 2,475,000	\$ 15,955,000	\$ 2,555,000
Series of 2012	10,000,000	-	1,385,000	8,615,000	1,425,000
Series of 2013	3,260,000	-	455,000	2,805,000	470,000
Series of 2015	-	2,465,000	-	2,465,000	405,000
	<u>\$ 31,690,000</u>	<u>\$ 2,465,000</u>	<u>\$ 4,315,000</u>	<u>\$ 29,840,000</u>	<u>\$ 4,855,000</u>

During the year ended June 30, 2011, the Authority issued its Tax Increment Revenue Bonds, Series of 2010, in the amount of \$27,600,000, with a fixed interest rate of 3.42% for the first 84 months. After the fixed rate period, the interest rate will float at 70% of the Bank's primary rate until maturity. The floating rate will not exceed 6% or be less than 2.8%. This is a multi-draw, non-revolving, bullet loan for a term of approximately 9.5 years, with final maturity to occur on or before June 1, 2020. Interest only is due semi-annually on June 1 and December 1 of each year. Interest payments will be based on the outstanding balance at the

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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.

Interest expense for the year ended June 30, 2016 was \$1,065,220.

Bonds payable are generally liquidated by the Bethlehem Works Fund.

Aggregate maturities required on long-term debt at June 30, 2016 are as follows:

Year Ending June 30,	Principal	Interest	Total Debt Service
2017	\$ 4,855,000	\$ 874,008	\$ 5,729,008
2018	5,030,000	855,406	5,885,406
2019	4,910,000	804,527	5,714,527
2020	15,045,000	580,009	15,625,009
	\$ 29,840,000	\$ 3,113,950	\$ 32,953,950

Interest due on the Tax Increment Revenue Bonds, Series of 2010, is based on the interest rate in effect at June 30, 2016 of 3.42% through December 31, 2017 and the maximum rate of 6% thereafter through maturity.

**REDEVELOPMENT AUTHORITY OF
THE CITY OF BETHLEHEM**

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

5. INTERFUND BALANCES AND TRANSFERS

A reconciliation of the interfund balances as of June 30, 2016 is as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 375,000	\$ -
Bethlehem Works Fund	-	375,000
	\$ 375,000	\$ 375,000

Interfund balances are primarily for cash flow purposes.

A reconciliation of the interfund transfers for the year ended June 30, 2016 is as follows:

Fund	Transfer In	Transfer Out
General Fund	\$ 272,983	\$ -
Bethlehem Works Fund	-	272,983
	\$ 272,983	\$ 272,983

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.

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Armory Rental Agreement

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

Subsequent to June 30, 2016, the Authority elected to purchase the property and entered into an agreement to sell the property for the purchase price of \$322,000.

Bethlehem Economic Development Corporation (BEDCO)

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

7. COMPLIANCE

Under the debt agreements, the Authority is required to maintain certain minimum balances in its debt service reserve funds. At June 30, 2016, the Authority's balances in the debt service reserve funds and the related reserve requirements are as follows:

Debt Series	Balance at June 30, 2016	Reserve Requirement
2010	\$ 2,777,479	\$ 2,760,000
2012	506,029	1,000,000
2013	167,252	326,000
2015	246,513	246,500

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

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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.

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

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

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

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

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

Plan Membership

Membership of the Plan consisted of the following at December 31, 2014, 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	<u>5</u>

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, 2015 was \$27,007. During the year ended June 30, 2015, the Authority made a contribution to the Plan in the amount of \$29,304. The MMO for the year ended December 31, 2016 was \$27,449. During the year ended June 30, 2016, the Authority made a contribution to the Plan in the amount of \$27,339.

**REDEVELOPMENT AUTHORITY OF
THE CITY OF BETHLEHEM**

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Changes in the Net Pension Liability

The changes in the net pension liability of the Authority for the year ended June 30, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2015 (based on the measurement date of December 31, 2014)	\$ 929,828	\$ 798,373	\$ 131,455
Changes for the year:			
Service cost	22,509	-	22,509
Interest	50,385	-	50,385
Changes in assumptions	24,308	-	24,308
Contributions - employer	-	27,007	(27,007)
Contributions - employees	-	8,592	(8,592)
Net investment income	-	19,218	(19,218)
Benefit payments, including refunds	(73,458)	(73,458)	-
Administrative expense	-	(1,918)	1,918
Net changes	23,744	(20,559)	44,303
Balances at June 30, 2016 (based on the measurement date of December 31, 2015)	\$ 953,572	\$ 777,814	\$ 175,758
Plan fiduciary net position as a percentage of the total pension liability			81.6%

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

Actuarial assumptions:

Investment rate of return	5.5%
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

Changes in Actuarial Assumptions – The actuarial assumptions noted above were used for the prior measurement date of December 31, 2014 except for: (1) projected salary increases were 3.0% through 8.3%, (2) the PMRS Experience Study was for the period January 1, 2005 to December 31, 2008, (3) the pre-retirement mortality table for males was RP 2000 with one year set back and for females was RP 2000 with five year set back, and (4) the post-retirement mortality table for males and females was RP 2000 Sex-Distinct Mortality Table. These assumption changes increased the total pension liability by \$24,308.

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

1. Expected future real rates of return are based primarily on the 20-year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific asset classes if, in the PMRS Board's opinion, any such asset classes are expected in the future to significantly vary from its 20-year historical returns.

**REDEVELOPMENT AUTHORITY OF
THE CITY OF BETHLEHEM**

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

2. The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of 3% to produce real rates of return.
3. The real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations. The results from steps 1 through 3 are presented in the chart labeled "System Nominal and Real Rates of Return by Asset Class."
4. These weighted real rates of return are then subjected to a probability simulation to understand the likelihood of success in achieving various portfolio return levels. Based on the most recent asset allocation study, the minimum acceptable confidence level for the PMRS Board has been determined to be 70%. The chart labeled "Confidence Levels for System Nominal and Real Rates of Return" identifies simulated portfolio returns at various confidence levels.

The following are the System Nominal and Real Rates of Return by Asset Class as of December 31, 2016:

Asset Class	Target Allocation	Nominal Rate of Return	Long-Term Expected Real Rate of Return
Domestic equity (large capitalized firms)	25.0%	9.9%	6.9%
Domestic equity (small capitalized firms)	15.0%	9.8%	6.8%
International equity (developed markets)	15.0%	7.0%	4.0%
International equity (emerging markets)	10.0%	10.6%	7.6%
Real estate	20.0%	10.1%	7.1%
Fixed income	15.0%	5.4%	2.4%
Total portfolio	<u>100.0%</u>	<u>8.8%</u>	<u>5.8%</u>

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

The following are the Confidence Levels for System Nominal and Real Rates of Return as of December 31, 2016:

Confidence Interval	Nominal Rate of Return	Long-Term Expected Real Rate of Return
95.0%	3.6%	0.6%
90.0%	4.6%	1.6%
85.0%	5.3%	2.3%
80.0%	5.5%	2.5%
75.0%	5.9%	2.9%
70.0%	6.3%	3.3%
50.0%	8.2%	5.2%

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

In addition to determining the System's long-term expected rate of return, PMRS also develops a long-term expected rate of return for individual participating municipalities. The long-term expected rate of return for individual participating municipalities is also referred to as the regular interest rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the PMRS Board is obligated to apply the regular interest rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. Therefore, under the law, the long-term expected rate of return for individual participating municipalities is equal to the regular interest rate. The rationale for the difference between the System's long-term expected rate of return and the individual participating municipalities' regular interest rate is described in the section below labeled "Discount Rate." As of December 31, 2015, this rate is equal to 5.5%.

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

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

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

PMRS Board considers the following five quantitative factors in establishing the regular interest rate:

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

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

The PMRS Board may then adjust the regular interest rate derived from the formula due to a variety of qualitative factors such as the desire to minimize regular interest rate volatility, trending of PBGC annuity rates, total PMRS actuarial and market value funding ratios, feedback from existing PMRS municipalities, and recommendations from the System's investment and actuarial consultants. The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2015 was 5.5%.

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

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

**REDEVELOPMENT AUTHORITY OF
THE CITY OF BETHLEHEM**

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
\$ 277,904	\$ 175,758	\$ 88,339

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended June 30, 2016, the Authority recognized pension expense of \$36,970. At June 30, 2016, the Authority reported deferred outflows of resources related to pensions from the following sources:

Differences between expected and actual experience	\$ 9,898
Changes in assumptions	18,231
Authority contributions subsequent to the measurement date	20,587
Net difference between projected and actual earnings on pension plan investments	14,892
Total	\$ 63,608

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

The effect of 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 \$20,587, will be recorded as a reduction to the pension liability during the year ending June 30, 2017. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	
2017	\$ 14,364
2018	14,364
2019	9,413
2020	<u>4,880</u>
	<u>\$ 43,021</u>

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.

In December 2016, the Authority approved issuance of Revenue Bonds (ArtsQuest Project) Series 2016 in an aggregate principal amount not to exceed \$7.5 million. The Authority then entered into a loan agreement with ArtsQuest and an assignment to PNC Community Development Company, LLC. The Revenue Bonds Series 2016 are secured by the gross revenues of ArtsQuest. The purpose of the Revenue Bonds Series 2016 is to refinance certain taxable debt obligations held by ArtsQuest.

10. SUBSEQUENT EVENT

In December 2016, the Authority issued its Tax Increment Revenue Bonds, Series of 2016, in the amount not to exceed \$650,000.

**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

	2016*	2015
Total Pension Liability:		
Service cost	\$ 22,509	\$ 21,777
Interest	50,385	49,383
Benefit payments, including refunds	(73,458)	(73,458)
Differences between expected and actual experience	-	19,796
Changes in assumptions	24,308	-
	23,744	17,498
Net Changes in Total Pension Liability	23,744	17,498
Total Pension Liability - Beginning	929,828	912,330
	\$ 953,572	\$ 929,828
Plan Fiduciary Net Position:		
Contributions - employer	\$ 27,007	\$ 18,097
Contributions - employees	8,592	8,304
Net investment income	19,218	50,638
Benefit payments, including refunds	(73,458)	(73,458)
Administrative expense	(1,918)	(1,746)
	(20,559)	1,835
Net Change in Plan Fiduciary Net Position	(20,559)	1,835
Plan Fiduciary Net Position - Beginning	798,373	796,538
	\$ 777,814	\$ 798,373
Plan Fiduciary Net Position - Ending (b)	\$ 777,814	\$ 798,373
Net Pension Liability - Ending (a-b)	\$ 175,758	\$ 131,455
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.6%	85.9%
Covered Employee Payroll	\$ 156,218	\$ 156,502
Net Pension Liability as a Percentage of Covered Employee Payroll	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 note to required supplementary information.

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF AUTHORITY PENSION CONTRIBUTIONS

	2016*	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution under Act 205	\$ 27,007	\$ 18,097	\$ 17,598	\$ -	\$ -	\$ -	\$ -	\$ 7,581	\$ 7,194	\$ 4,440
Contribution in relation to the actuarially determined contribution	27,007	18,097	17,598	-	-	-	-	7,581	7,194	4,440
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 156,218	\$ 156,502								
Contributions as a percentage of covered employee payroll	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 note to required supplementary information.

REDEVELOPMENT AUTHORITY OF THE CITY OF BETHLEHEM

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2016

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, 2015 (presented as the subsequent year on the preceding schedules) are as follows:

Actuarial valuation date	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	Based on periods in Act 205
Asset valuation method	Based on the municipal reserves
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	age related scale with merit and inflation component
Underlying inflation rate	3.0%
Cost of living adjustment increase	3.0%
Pre-retirement mortality:	
Males: RP 2000 with 1 year set back	
Females: RP 2000 with 5 year set back	
Post-retirement mortality:	
Males and females: Sex distinct RP 2000 Combined Healthy Mortality	

MaherDuessel
Certified Public Accountants

Pittsburgh
503 Martindale Street
Suite 600
Pittsburgh, PA 15212
Main 412.471.5500
Fax 412.471.5508

Harrisburg
3003 North Front Street
Suite 101
Harrisburg, PA 17110
Main 717.232.1230
Fax 717.232.8230

Butler
112 Hollywood Drive
Suite 204
Butler, PA 16001
Main 724.285.6800
Fax 724.285.6875

Board of Directors
Redevelopment Authority of
the City of Bethlehem

In planning and performing our audit of the financial statements 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, 2016, 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 April 20, 2017, on the financial statements of the Authority.

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

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

Maher Duessel

Harrisburg, Pennsylvania
April 20, 2017

APPROVING OR RATIFYING CHANGE ORDERS

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

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.

ADOPTING A CAPITAL ASSET POLICY

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

ADOPTING A FUND BALANCE/NET POSITION FLOW POLICY

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

DEVELOPING AN ACCOUNTING POLICIES AND PROCEDURES MANUAL

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

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

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

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

DEVELOPING A DISASTER RECOVERY PLAN

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