

# COMPLIANCE AUDIT

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## City of Bethlehem Aggregate Pension Fund Northampton County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

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November 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and City Council  
City of Bethlehem  
Northampton County  
Bethlehem, PA 18018

We have conducted a compliance audit of the City of Bethlehem Aggregate Pension Fund for the period January 1, 2016 to December 31, 2017. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the pension fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report, we inquired of fund officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plans' governing documents and applicable laws and regulations by examining the municipality's calculation of the plans' annual financial requirements and minimum municipal obligations (MMOs) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plans as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plans in accordance with the plans' governing documents and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plans' governing documents in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plans.
- We determined whether retirement benefits calculated for 9 of the 21 police officers<sup>1</sup> and 6 of the 9 firefighters<sup>1</sup> who retired during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plans' governing documents, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 2016 and 2018, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by fund officials by examining supporting documentation for one of the transfers made during the audit period and through the completion of our fieldwork procedures.

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<sup>1</sup> We selected plan members randomly from the population of plan members who retired during the current audit period in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

- We determined whether the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation for pension obligation bonds issued during the current audit period.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plans' governing documents.

The City of Bethlehem contracted with an independent certified public accounting firm for annual audits of the City of Bethlehem Aggregate Pension Fund's its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Bethlehem Aggregate Pension Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the City of Bethlehem Aggregate Pension Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid
- Finding No. 2 – Failure To Implement Professional Services Contract Provisions Of Act 205

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of the City of Bethlehem and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit. Include this final sentence when applicable.

November 13, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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## BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of Bethlehem Aggregate Pension Fund is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

- Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- Act 399 - Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq.

The City of Bethlehem Aggregate Pension Fund serves as a common investment and administrative agent for the city's police, paid firemen's, and officers' and employees' pension plans. The plans are single-employer defined benefit pension plans locally controlled by the provisions of the City's Codified Ordinances, at Articles 153, 151 and 155, respectively. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers, firefighters, and non-uniformed employees hired on or prior to August 1, 1978.

## BACKGROUND – (Continued)

### Police Pension Plan

The plan was established December 28, 1948. The plan is affected by the provisions of collective bargaining agreements between the city and its police officers. Active members are required to contribute 7 percent of compensation plus an additional 1% per month to the plan. As of December 31, 2017, the plan had 140 active members, no terminated members eligible for vested benefits in the future, and 176 retirees receiving pension benefits from the plan.

As of December 31, 2017, selected plan benefit provisions are as follows:

#### Eligibility Requirements:

Normal Retirement	Eligible with 20 years of service.
Early Retirement	None
Vesting	None

#### Retirement Benefit:

Benefit equals 60% of average monthly compensation (final or average of highest 5 years) after 20 years of service, plus 2% of compensation per year over 20 years to a maximum of 70% of average monthly compensation, plus a monthly service increment (maximum \$100) of 1/40<sup>th</sup> of such pension per year over 20 years. For members hired after 1/1/2012, 50% of average monthly compensation plus a monthly service increment (maximum \$100) of 1/40<sup>th</sup> of such pension per year over 20 years.

#### Survivor Benefit:

Benefit is 100% of the pension benefit to surviving spouse or to child under 18.

#### Disability Benefit:

Service Related	Monthly disability benefit equal to the benefit based upon the normal retirement benefit formula. The disability benefit is reduced by Worker's Compensation.
Non-Service Related	After 10 years, but less than 15 years of service, 30% of average monthly compensation. After 15 years but less than 21 years of service, 60% of average monthly compensation. After 21 years of service, benefit is based on the normal retirement benefit formula and reduced by Workers' Compensation.



## BACKGROUND – (Continued)

### Firemen’s Pension Plan

The plan was established April 23, 1940. The plan is affected by the provisions of collective bargaining agreements between the city and its paid firefighters. Active members are required to contribute 8 percent of compensation to the plan. As of December 31, 2017, the plan had 102 active members, no terminated members eligible for vested benefits in the future, and 125 retirees receiving pension benefits from the plan.

As of December 31, 2017, selected plan benefit provisions are as follows:

#### Eligibility Requirements:

Normal Retirement	Eligible with 20 years of service.
Early Retirement	None
Vesting	None

#### Retirement Benefit:

Benefit equals 60% of average monthly compensation (final or average of highest 5 years) after 20 years of service, plus 2% of compensation per year over 20 years to a maximum of 70% of average monthly compensation, plus a monthly service increment (maximum \$100) of 1/40<sup>th</sup> of such pension per year over 20 years. For members hired after 10/24/2011, 50% of average monthly compensation plus a monthly service increment (maximum \$100) of 1/40<sup>th</sup> of such pension per year over 20 years.

#### Survivor Benefit:

Benefit is 100% of the pension benefit to surviving spouse or to child under 18.

#### Service Related Disability Benefit:

Service Related	Monthly disability benefit equal to the benefit based upon the normal retirement benefit formula. The disability benefit is reduced by Worker’s Compensation.
Non-Service Related	After 10 years, but less than 15 years of service, 30% of average monthly compensation. After 15 years but less than 21 years of service, 60% of average monthly compensation. After 21 years of service, benefit is based on the normal retirement benefit formula and reduced by Workers’ Compensation.

## BACKGROUND – (Continued)

### Officers' and Employees' Pension Plan

The plan was established December 28, 1945. The plan is affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees hired on or prior to August 1, 1978. As of the beginning of the current audit period January 1, 2016, the plan had no active members, no terminated members eligible for vested benefits in the future, and 42 retirees receiving pension benefits and selected plan benefit provisions were as follows:

#### Eligibility Requirements:

Normal Retirement	Age 60 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

#### Retirement Benefit:

Benefit equals 2.5% of average monthly salary for each year of service up to 65% of average monthly salary based on the current annual salary of the average of the highest 5 years.

#### Survivor Benefit:

None

#### Service Related Disability Benefit:

After 15 years of service the full pension is payable upon permanent disability.

During 2017, the city elected to transfer its officers' and employees' pension plan assets to an insurance carrier for the purchase of a nonparticipating single premium group annuity contract to provide continued monthly pension benefits to its remaining retired pension plan members. However, we were unable to determine whether the city complied in all respects with the provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the city's officers' and employee's pension plan relative to this procurement as further discussed in Finding No. 2 contained in this report. As of December 31, 2017, there were 37 retirees receiving pension benefits purchased through this group annuity contract.

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

The City of Bethlehem has complied with the prior audit recommendation concerning the following:

- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

During the current audit period, municipal officials adopted Ordinance No. 2017-50 enacting a disability benefit in the firemen's pension plan which was previously omitted from the plan document but ultimately contained in previously filed actuarial valuation reports thus eliminating the inconsistency between plan documents. Moreover, the firemen's actuarial valuation report, valued January 1, 2017, accurately describes firemen's pension plan benefit provisions in accordance with the pension plan's governing documents.

Noncompliance With Prior Audit Recommendation

The City of Bethlehem has not complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Although the city was reimbursed for the underpayment of state aid due to the city's prior certification errors, municipal officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data, as further discussed in Finding No. 1 contained in this report.

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid**

Condition: As disclosed in the Status of Prior Finding section of this report, although the city was reimbursed for the underpayment of state aid due to the city’s prior certification errors, the city again failed to comply with the instructions that accompanied Certification Form AG 385. During the current audit period, the city failed to certify an eligible non-uniformed employee (1 unit) participating in the officers’ and employees’ – PMRS plan on the Certification Form AG 385 filed in 2017. In addition, subsequent to the current period, the city also certified an ineligible police officer (2 units) and an additional ineligible non-uniformed employee (1 unit) participating in the officers’ and employees’ – PMRS plan on the Certification Form AG 385 filed in 2018. The data contained on these certification forms is based on prior calendar year information.

Criteria: As previously disclosed in the prior audit report, pursuant to Section 402(e)(2) of Act 205, in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials again failed to establish adequate internal control procedures to ensure the accuracy of the data certified and compliance with our prior audit recommendation.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the city’s state aid allocations were based on unit value, the incorrect certification of pension data affected the city’s state aid allocations, as identified below:

Year	Type Of Plan	Units Overstated (Understated)	Unit Value	State Aid Overpayment (Underpayment)
2017	O&E – PMRS	(1)	\$ 4,588	\$ (4,588)
2018	Police	2	4,684	9,368
	O&E – PMRS	1	4,684	4,684
Net Overpayment of State Aid				<u>\$ 9,464</u>

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$9,464, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also again recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management’s Response: Municipal officials agreed with the finding without exception.

Auditor’s Conclusion: The city’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

**Finding No. 2 – Failure To Implement Professional Services Contract Provisions Of Act 205**

Condition: Municipal officials have not adopted the mandatory provisions regarding professional services contracts under Act 205. During the prior audit, a verbal observation was issued to plan officials notifying them of the passage of Act 44 of 2009 which amended Act 205, and recommending that the city adopt the mandatory Act 44 provisions. However, as of the date of this report, the city has not adopted these mandatory provisions.

Criteria: Section 701-A of Act 205, as amended by Act 44 of 2009, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

**Review.** Procedures to select the most qualified person shall include a review of the person's qualifications, experience and expertise and the compensation to be charged.

**Conflict of interest** – The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

**Public information.** Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

**Notice and summary.** The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Upon advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Cause: Plan officials failed to establish adequate internal controls procedures to ensure compliance with the provisions of Act 205 and our prior recommendation.

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Effect: The failure to implement and follow the provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the city’s pension plans could result in a general lack of overall transparency of the actions taken by plan officials relative to the awarding of contracts for investment and advisory services for the city’s pension plans.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 and develop and implement procedures for the procurement of professional services for the city’s pension plans to ensure compliance with provisions stipulated in Act 205.

Management Response: Municipal officials agreed with the finding without exception.

Auditor Conclusion: Compliance will be evaluated during our next audit of the plan.

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 10 through 20 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

POLICE PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 2,051,464	\$ 2,040,893
Interest	6,976,913	7,503,420
Difference between expected and actual experience	-	4,010,737
Benefit payments, including refunds of member contributions	<u>(6,032,142)</u>	<u>(5,984,760)</u>
Net Change in Total Pension Liability	2,996,235	7,570,290
Total Pension Liability – Beginning	<u>93,990,116</u>	<u>96,986,351</u>
Total Pension Liability – Ending (a)	<u>\$ 96,986,351</u>	<u>\$ 104,556,641</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 3,520,610	\$ 4,298,925
Contributions – member	817,800	823,385
Net investment income	3,608,964	414,168
Benefit payments, including refunds of member contributions	<u>(6,032,142)</u>	<u>(5,984,760)</u>
Administrative expense	<u>(7,400)</u>	<u>(18,920)</u>
Net Change in Plan Fiduciary Net Position	1,907,832	(467,202)
Plan Fiduciary Net Position – Beginning	<u>74,055,633</u>	<u>75,963,465</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 75,963,465</u>	<u>\$ 75,496,263</u>
Net Pension Liability – Ending (a-b)	<u>\$ 21,022,886</u>	<u>\$ 29,060,378</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.32%	72.21%
Estimated Covered Employee Payroll	\$ 11,524,100	\$ 11,756,420
Net Pension Liability as a Percentage of Covered Employee Payroll	182.43%	247.19%



CITY OF BETHLEHEM AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

POLICE PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 2,132,733	\$ 2,114,272
Interest	7,764,382	8,420,015
Changes for Experience	-	3,269,690
Changes for Assumptions	-	2,182,081
Benefit payments, including refunds of member contributions	(6,328,562)	(6,848,745)
Net Change in Total Pension Liability	<u>3,568,553</u>	<u>9,137,313</u>
Total Pension Liability – Beginning	104,556,641	108,125,194
Total Pension Liability – Ending (a)	<u>\$ 108,125,194</u>	<u>\$ 117,262,507</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 4,430,587	\$ 4,463,427
Contributions – member	846,396	812,201
Net investment income	6,264,754	11,522,639
Benefit payments, including refunds of member contributions	(6,328,562)	(6,848,745)
Administrative expense	(32,879)	(18,241)
Net Change in Plan Fiduciary Net Position	<u>5,180,296</u>	<u>9,931,281</u>
Plan Fiduciary Net Position – Beginning	75,496,263	80,676,559
Plan Fiduciary Net Position – Ending (b)	<u>\$ 80,676,559</u>	<u>\$ 90,607,840</u>
Net Pension Liability – Ending (a-b)	<u>\$ 27,448,635</u>	<u>\$ 26,654,667</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.61%	77.27%
Estimated Covered Employee Payroll	\$ 12,453,621	\$ 11,580,766
Net Pension Liability as a Percentage of Covered Employee Payroll	220.41%	230.16%

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

FIREMEN’S PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 1,290,085	\$ 1,297,598
Interest	4,837,270	5,067,577
Difference between expected and actual experience	-	1,257,475
Benefit payments, including refunds of member contributions	(4,629,623)	(4,563,169)
Net Change in Total Pension Liability	<u>1,497,732</u>	<u>3,059,481</u>
Total Pension Liability – Beginning	65,989,971	67,487,703
Total Pension Liability – Ending (a)	<u>\$ 67,487,703</u>	<u>\$ 70,547,184</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 2,223,040	\$ 2,683,110
Contributions – member	572,480	570,801
Net investment income	2,701,705	269,203
Benefit payments, including refunds of member contributions	(4,629,623)	(4,563,169)
Administrative expense	(6,900)	(14,450)
Net Change in Plan Fiduciary Net Position	<u>860,702</u>	<u>(1,054,505)</u>
Plan Fiduciary Net Position – Beginning	55,899,480	56,760,182
Plan Fiduciary Net Position – Ending (b)	<u>\$ 56,760,182</u>	<u>\$ 55,705,677</u>
Net Pension Liability – Ending (a-b)	<u>\$ 10,727,521</u>	<u>\$ 14,841,507</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.10%	78.96%
Estimated Covered Employee Payroll	\$ 7,065,479	\$ 6,860,596
Net Pension Liability as a Percentage of Covered Employee Payroll	151.83%	216.33%

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

FIREMEN’S PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 1,355,990	\$ 1,468,765
Interest	5,213,255	5,733,824
Changes for Experience	-	3,339,533
Changes for Assumptions	-	1,635,967
Benefit payments, including refunds of member contributions	(4,335,057)	(5,015,911)
Net Change in Total Pension Liability	<u>2,234,188</u>	<u>7,162,178</u>
Total Pension Liability – Beginning	70,547,184	72,781,372
Total Pension Liability – Ending (a)	<u>\$ 72,781,372</u>	<u>\$ 79,943,550</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 2,550,742	\$ 2,595,844
Contributions – member	644,461	617,367
Net investment income	4,634,719	8,420,260
Benefit payments, including refunds of member contributions	(4,335,057)	(5,015,911)
Administrative expense	(22,991)	(13,894)
Net Change in Plan Fiduciary Net Position	<u>3,471,874</u>	<u>6,603,666</u>
Plan Fiduciary Net Position – Beginning	55,705,677	59,177,551
Plan Fiduciary Net Position – Ending (b)	<u>\$ 59,177,551</u>	<u>\$ 65,781,217</u>
Net Pension Liability – Ending (a-b)	<u>\$ 13,603,821</u>	<u>\$ 14,162,333</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.31%	82.28%
Estimated Covered Employee Payroll	\$ 8,021,606	\$ 7,639,322
Net Pension Liability as a Percentage of Covered Employee Payroll	169.59%	185.39%

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Interest	\$ 444,150	\$ 398,088
Difference between expected and actual experience	-	(128,970)
Benefit payments, including refunds of member contributions	(977,981)	(880,698)
Net Change in Total Pension Liability	(533,831)	(611,580)
Total Pension Liability – Beginning	6,410,995	5,877,164
Total Pension Liability – Ending (a)	<u>\$ 5,877,164</u>	<u>\$ 5,265,584</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 1,040,430	\$ 698,515
Net investment income	338,756	45,544
Benefit payments, including refunds of member contributions	(977,981)	(880,698)
Administrative expense	(5,000)	(1,811)
Net Change in Plan Fiduciary Net Position	396,205	(138,450)
Plan Fiduciary Net Position – Beginning	7,028,404	7,424,609
Plan Fiduciary Net Position – Ending (b)	<u>\$ 7,424,609</u>	<u>\$ 7,286,159</u>
Net Pension Liability – Ending (a-b)	<u>\$ (1,547,445)</u>	<u>\$ (2,020,575)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	126.33%	138.37%
Estimated Covered Employee Payroll	\$ -	\$ -
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	N/A

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION  
 LIABILITY AND RELATED RATIOS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Interest	\$ 364,258	\$ 105,005
Changes for Experience	-	1,375,308
Changes of Assumptions	-	269,994
Benefit payments, including refunds of member contributions	(817,601)	*(6,562,548)
Net Change in Total Pension Liability	(453,343)	(4,812,241)
Total Pension Liability – Beginning	5,265,584	4,812,241
Total Pension Liability – Ending (a)	<u>\$ 4,812,241</u>	<u>\$ -</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ -	\$ -
Net investment income	582,408	634,981
Benefit payments, including refunds of member contributions	(817,601)	*(6,562,548)
Administrative expense	(6,332)	(3,643)
Net Change in Plan Fiduciary Net Position	(241,525)	(5,931,210)
Plan Fiduciary Net Position – Beginning	7,286,159	7,044,634
Plan Fiduciary Net Position - Ending (b)	<u>\$ 7,044,634</u>	<u>\$ 1,113,424</u>
 Net Pension Liability - Ending (a-b)	<u>\$ (2,232,393)</u>	<u>\$ (1,113,424)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	146.39%	N/A
 Estimated Covered Employee Payroll	\$ -	\$ -
 Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	N/A

\* 2017 benefits payments includes a transfer of assets to an insurance carrier for the purchase of a nonparticipating single premium group annuity contract to provide continued future monthly pension benefits to its remaining retired pension plan members.

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

POLICE PENSION PLAN

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city as of December 31, 2015, 2016, and 2017 calculated using the discount rate of 7.5%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net Pension Liability – 12/31/15	\$ 41,866,233	\$ 29,060,378	\$ 18,328,307
Net Pension Liability – 12/31/16	\$ 40,337,390	\$ 27,448,635	\$ 16,596,743
Net Pension Liability – 12/31/17	\$ 41,434,609	\$ 26,654,667	\$ 14,333,237

FIREMEN'S PENSION PLAN

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city as of December 31, 2015, 2016, and 2017 calculated using the discount rate of 7.5%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net Pension Liability – 12/31/15	\$ 22,986,707	\$ 14,841,507	\$ 7,962,072
Net Pension Liability – 12/31/16	\$ 21,743,707	\$ 13,603,821	\$ 6,671,264
Net Pension Liability – 12/31/17	\$ 23,793,137	\$ 14,162,333	\$ 6,082,707

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city as of December 31, 2015, 2016, and 2017 calculated using the discount rate of 7.5%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net Pension Liability – 12/31/15	\$ (1,765,151)	\$ (2,020,575)	\$ (2,253,492)
Net Pension Liability – 12/31/16	\$ (2,008,934)	\$ (2,232,393)	\$ (2,436,539)
Net Pension Liability – 12/31/17	\$ (1,113,424)	\$ (1,113,424)	\$ (1,113,424)

POLICE PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll*</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2008	\$ 1,713,031	\$ 1,713,031	\$ -	\$ -	-
2009	1,847,708	1,938,673	(90,965)	-	-
2010	1,921,109	2,091,038	(169,929)	-	-
2011	2,534,484	2,614,322	(79,838)	-	-
2012	2,520,216	2,520,217	(1)	-	-
2013	3,494,690	3,494,690	-	-	-
2014	3,520,610	3,520,610	-	11,524,100	30.55%
2015	4,298,925	4,298,925	-	11,756,420	36.57%
2016	4,430,587	4,430,587	-	12,453,621	35.58%
2017	4,463,427	4,463,427	-	11,580,766	38.54%

\* Due to GASB Statement No. 67, Financial Reporting for Pension Plans, being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

POLICE PENSION PLAN – (Continued)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2017	14.27%
2016	8.75%
2015	0.84%
2014	5.73%

FIREMEN’S PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2008	\$ 1,018,719	\$ 1,018,719	\$ -	\$ -	-
2009	1,174,242	1,214,739	(40,497)	-	-
2010	1,136,780	1,227,791	(91,011)	-	-
2011	1,672,843	1,701,818	(28,975)	-	-
2012	1,492,988	1,492,989	(1)	-	-
2013	2,245,105	2,245,105	-	-	-
2014	2,223,040	2,223,040	-	7,065,479	31.46%
2015	2,683,110	2,683,110	-	6,860,596	39.11%
2016	2,550,742	2,550,742	-	8,021,606	31.80%
2017	2,595,844	2,595,844	-	7,639,322	33.98%

\* Due to GASB Statement No. 67, Financial Reporting for Pension Plans, being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.



CITY OF BETHLEHEM AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

FIREMEN’S PENSION PLAN – (Continued)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2017	14.27%
2016	8.75%
2015	0.84%
2014	5.73%

OFFICERS’ AND EMPLOYEES’ PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2008	\$ 379,382	\$ 379,382	\$ -	\$ -	-
2009	622,663	648,841	(26,178)	-	-
2010	467,762	487,529	(19,767)	-	-
2011	455,998	458,902	(2,904)	-	-
2012	432,314	432,315	(1)	-	-
2013	1,051,497	1,051,497	-	-	-
2014	1,040,430	1,040,430	-	-	N/A
2015	698,515	698,515	-	-	N/A
2016	-	-	-	-	N/A
2017	-	-	-	-	N/A

\* Due to GASB Statement No. 67, Financial Reporting for Pension Plans, being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN – (Continued)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2017	14.27%
2016	8.75%
2015	0.84%
2014	5.73%

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the city’s pension plans which together, comprise the aggregate pension fund are presented herewith as supplementary information. It is intended to help users assess the plans’ funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2013, is as follows:

POLICE PENSION PLAN

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	\$ 64,468,632	\$ 90,776,709	\$ 26,308,077	71.0%
01-01-15	75,928,345	100,997,088	25,068,743	75.2%
01-01-17	80,676,559	113,576,965	32,900,406	71.0%

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS – (Continued)

FIREMEN’S PENSION PLAN

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	\$ 49,055,473	\$ 64,153,591	\$ 15,098,118	76.5%
01-01-15	56,795,303	68,745,178	11,949,875	82.6%
01-01-17	59,177,551	77,756,872	18,579,321	76.1%

OFFICERS’ AND EMPLOYEES’ PENSION PLAN

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	\$ 6,052,813	\$ 6,980,171	\$ 927,358	86.7%
01-01-15	7,424,609	5,748,194	(1,676,415)	129.2%
01-01-17	7,044,634	4,681,342	(2,363,292)	150.5%

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%

OFFICERS' AND EMPLOYEES' PENSION PLAN

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%

CITY OF BETHLEHEM AGGREGATE PENSION FUND  
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