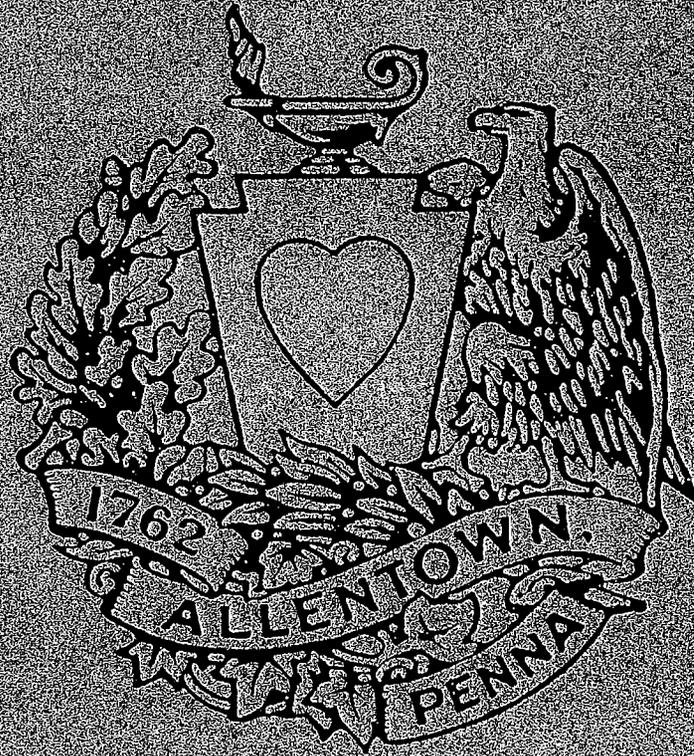


**CITY OF ALLENTOWN**  
ALLENTOWN, PENNSYLVANIA

**COMPREHENSIVE  
ANNUAL FINANCIAL REPORT**



For the year ended  
December 31, 2003

**CITY OF ALLENTOWN, PENNSYLVANIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2001**



Roy C. Afflerbach

Mayor

David M. Howells, Sr.  
Martin Velazquez, III  
David K. Bausch  
Tom Burke  
Julio A. Guridy  
Louis J. Hershman  
Gail Hoover

President, City Council  
Vice President, City Council  
Councilperson  
Councilperson  
Councilperson  
Councilperson  
Councilperson

Frank J. Concannon

City Controller

Robert W. Brown, Esq.

City Solicitor

Beth A. Mohylsky  
Barbara W. Bigelow

Manager of Treasury and Accounting Operations  
Director of Finance and Human Resources

Parente Randolph, LLC

Independent Auditors

**This Report was prepared by  
The Department of Finance  
Barbara W. Bigelow, Director of Finance and Human Resources  
Beth A. Mohylsky, Manager of Treasury and Accounting Operations**

## **PERTINENT FACTS ABOUT THE CITY OF ALLENTOWN**

### **GENERAL**

The City of Allentown is the county seat of Lehigh County and, with 106,632 residents, according to the U. S. Census Bureau 2000 estimate, ranks as Pennsylvania's third largest city. The Allentown-Bethlehem Metropolitan Statistical Area, comprised of Carbon, Lehigh and Northampton counties is the third largest urbanized area in the Commonwealth, with population estimated at 611,764. Only the Philadelphia and Pittsburgh areas have more residents. The City is strategically located within a 300-mile radius of the larger metropolitan areas on the eastern seaboard of the United States.

### **CITY GOVERNMENT**

On April 23, 1996, the voters of the City of Allentown adopted a Home Rule Charter pursuant to the Home Rule Charter and Optional Plans Law, Act of April 13, 1972, P.L. 184, as amended, 53 P.S. Sections 2901 et seq. The City's Home Rule Charter took effect on the first Monday of January 1997. An elected Mayor with a four-year term serves as the chief executive of the City. A seven-member part-time City Council elected at large for four-year staggered terms forms the legislative branch of the City government. The other elected City official is the City Controller who serves a four-year term. The City Council holds regular public meetings, at least twice a month, usually the first and third Wednesday of each month, in order to enact legislation in the form of ordinances and resolutions.

### **INDUSTRIES/LABOR FORCE**

The Allentown area remains an attractive location for new and existing businesses. A number of major corporations, including Mack Trucks, Inc., Air Products and Chemicals, Inc., Lehigh Portland Cement, Agere and PPL have selected Lehigh County as their headquarters or as the location of their principal plants. Other major industries include apparel, electrical and electronic equipment and fabricated metal products. Investments have remained strong in Allentown and the Lehigh Valley area relative to the state and northeast as a whole.

### **TRANSPORTATION**

Interstate 78, U.S. Routes 22, 222 and 309 and several state highways radiate from the City and the Lehigh Valley and provide access to the major markets and ports of the East. The Northeast Extension of the Pennsylvania Turnpike is located approximately three miles west of the City. Railroads serving the Lehigh Valley area include the Consolidated Rail Corporation and the Canadian Pacific Railroad. Conrail has a large classification yard in the Allentown area. The Allentown yard can handle some 80 trains in and out each day, an average of one train every 18 minutes.

### **AMENITIES**

The City of Allentown is home to a variety of cultural and educational facilities including two colleges, an art museum, two theatre companies, two symphony orchestras, a Municipal Opera Company, the Allentown Band, and an expanded free Public Library. The City maintains 2,000 acres of park land, well above the national average. The downtown area is in a transition period and a major effort is being made to attract new enterprises to Hamilton Street. Increased downtown activity will become a catalyst for continuing interest in the area.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
CITY OF ALLENTOWN  
DECEMBER 31, 2003**

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## **APPENDIX**

FINANCIAL MANAGEMENT POLICIES

ALLENTOWN PARKING AUTHORITY, DECEMBER 31, 2003  
AUDITED FINANCIAL STATEMENTS

ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION, JUNE 30, 2003  
AUDITED FINANCIAL STATEMENTS

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*Re*  
**Discover**  
*the city*  
**Allentown**

**Barbara W. Bigelow, Director**  
Department of Finance and Human Resources  
610.437.7500 Fax 610.437.7675  
bigelow@allentowncity.org

July 12, 2004

Honorable Mayor and Members of City Council  
Allentown, Pennsylvania

The Comprehensive Annual Financial Report (CAFR) of the City of Allentown, Pennsylvania, for the fiscal year ended December 31, 2003 is submitted herewith. This report was prepared by the City's Department of Finance. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain maximum understanding of the City's financial affairs have been included.

The Comprehensive Annual Financial Report is presented in four sections: Introductory, Financial, Statistical, and Appendix. The introductory section includes this transmittal letter and the government's organizational chart listing principal officials. The financial section includes the management's discussion and analysis, basic financial statements and combining and individual fund financial statements and schedules and component unit financial statements. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The appendix presents the City's comprehensive set of management policies and also includes financial statements for two of the City's Component Units - the Allentown Parking Authority (APA) and the Allentown Economic Development Corporation (AEDC).

The City provides a full range of services. These services include police and fire protection; sanitation services; the construction and maintenance of streets, roads, and infrastructure; water/sewer services; recreational activities, parks, community development and planning, and general administrative services.

This report has been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for governments as promulgated by the Government Accounting Standards Board (GASB). The financial statements of the reporting entity include those of the City of Allentown, Pennsylvania (City) (the primary government) and its Component Units. The Component Units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The Component Units, in accordance with GAAP, have been included in the financial reporting entity as discretely presented Component Units.



## FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse, and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. As a result of the implementation of GASB-34, the format of the CAFR has been expanded to include a Management Discussion and Analysis (MD&A) section that provides an analysis of the City's financial condition in 2003.

**Budgeting Controls.** In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund, Special Revenue Fund, and Debt Service Fund are included in the annual appropriated budget. Project-length financial plans are adopted for the Capital Projects Funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function and activity (bureau) within an individual fund.

The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Estimated purchase amounts are encumbered prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of approved appropriation balances are not released unless sufficient unencumbered funds are available for transfer in accordance with the City's Administrative Code or, in the absence of such available funds, until a supplemental appropriation is approved by City Council from the respective unappropriated fund balance.

---

## OTHER INFORMATION

**Independent Audit.** The City's Administrative Code requires that an annual audit of the books of account, financial records, and transactions of the City be performed by independent certified public accountants. The accounting firm of Parente Randolph, LLC was selected by City Council in 2003 to perform the annual audit for fiscal years 2002 through 2004. In addition, various bond indentures also require such an audit. The City has complied with this requirement and the auditors' opinion has been included in this report.

**Awards.** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the year ended December 31, 2002. This was the fifteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

**Initiatives for the Year.** Our continuing focus for 2003 was on the first phase of our brighter vision for Allentown: To reestablish Allentown as a safe city by putting into place strategies to restructure our police force and take control over crime. Through organizational restructuring and expansion of the police force by 10% to 242 sworn officers, we have made significant progress toward improving our Police Department's ability to fight crime and toward restoring Allentown's reputation as a safe city, through continued involvement with community groups and the establishment of a thriving Weed and Seed program in a targeted area. Throughout 2003 Allentown's Police Department has made noteworthy advancements toward receiving state and national certification.

While continuing efforts in public safety, Allentown has also launched an aggressive redevelopment effort under the guidance of a Mayor's Economic Development Cabinet, comprised of a blend of local business leaders and City employees. This team has formed a cohesive network that continues to identify economic development and marketing opportunities for the City to make it an attractive place to live, work, invest, and play.

**Acknowledgments.** The timely preparation of the CAFR was made possible by the dedicated service of the entire staff of the Department of Finance. We would especially like to express our appreciation to the following staff members who assisted and contributed so significantly to its preparation: Robert S. Koch, Michael T. Sinclair, and Mark W. Sivak.

We would also like to thank the Mayor and City Council for their continued support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Sincerely,



Barbara W. Bigelow  
Director of Finance and Human Resources



Beth A. Mohylsky  
Manager, Treasury & Accounting

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Allentown,  
Pennsylvania

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

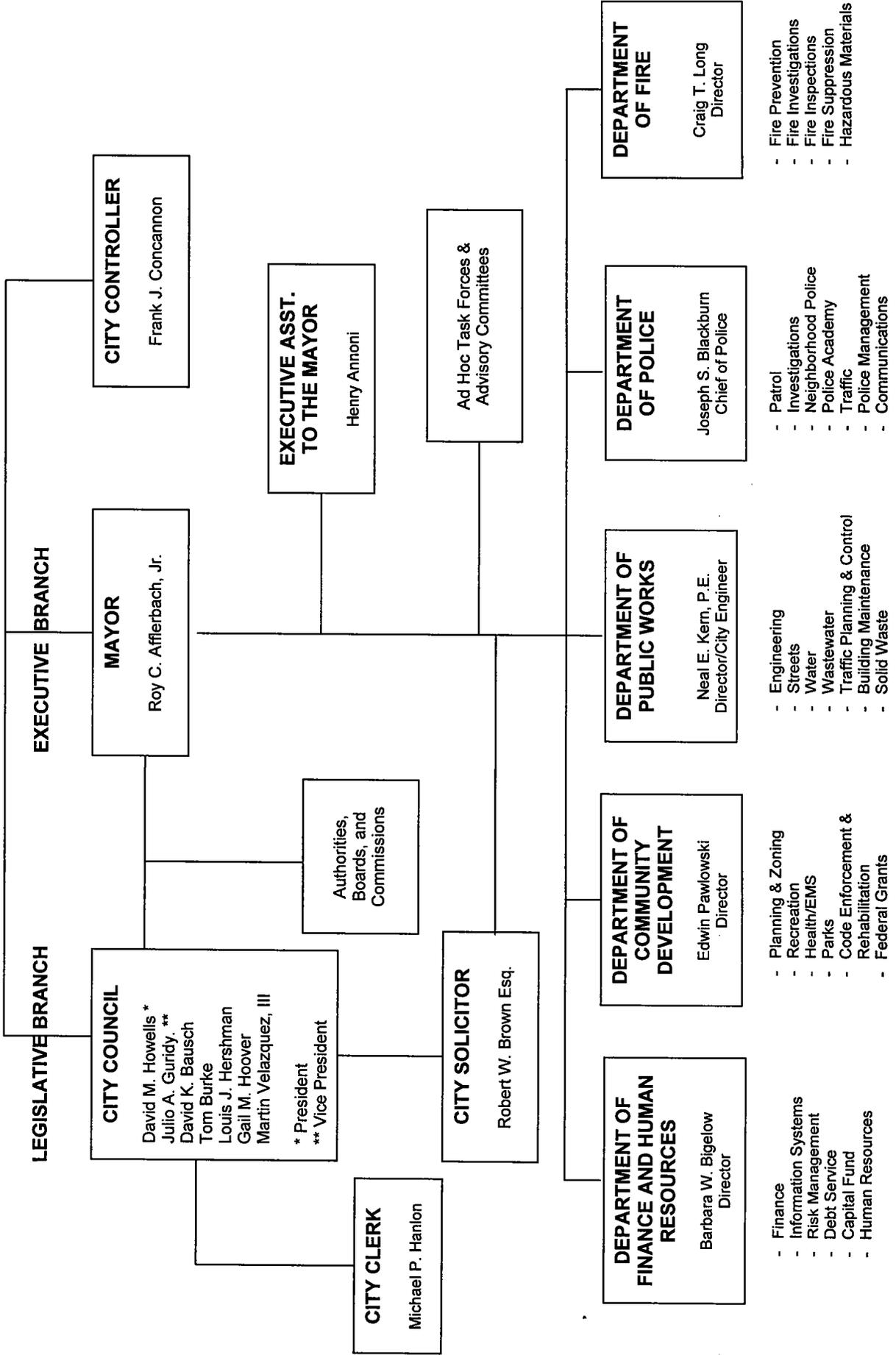


President

Executive Director

# CITY OF ALLENTOWN

## THE VOTERS OF ALLENTOWN



**INDEPENDENT AUDITORS' REPORT**

The Honorable Mayor and Members of City Council  
City of Allentown, Pennsylvania:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, a discretely presented component unit (Allentown Redevelopment Authority, "ARA"), each major fund and the aggregate remaining fund information of the City of Allentown, Pennsylvania, as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Allentown. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Allentown Economic Development Corporation and the Allentown Parking Authority as of and for the years ended June 30, 2003 and December 31, 2003, respectively, which represent 99 percent of the assets of the discretely presented component units column and 92 percent of the revenues of the discretely presented component units column. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, a discretely presented component unit (ARA), each major fund, and the aggregate remaining fund information of the City of Allentown, Pennsylvania as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, Major Special Revenue Fund, and Debt Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the City has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of January 1, 2003. Concurrently, the City also implemented Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*.

The Management's Discussion and Analysis ("MD&A") on pages 8 through 22 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

The required supplementary information listed in the foregoing table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Allentown, Pennsylvania basic financial statements. The introductory section, additional schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section, additional schedules and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Parente Randolph, LLC*

Allentown, Pennsylvania  
July 12, 2004

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

---

This Management Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of the City of Allentown for the year ended December 31, 2003. The City's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. Additional information is provided in the Transmittal Letter preceding this Management Discussion and Analysis which can be found on pages 1-3 of this report. This discussion focuses on the City's primary government. Component units, unless otherwise noted, are not included in this discussion.

**FINANCIAL HIGHLIGHTS**

During 2003, the City's total net assets increased by \$2,193,945. Net assets of governmental activities decreased \$5,424,711 and net assets of business-type activities increased \$7,618,656.

The City's capital outlays were less than proceeds from the bond issue recorded in the capital projects and the net expense of the internal service fund resulted in a decrease in net assets. The charges and services provided by the business-type activities exceeded expenses resulting in the increase to net assets.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector businesses.

The *statement of net assets* presents information on all of the City's assets and liabilities with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned benefits such as unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-like activities*). The governmental activities of the City include general government, public safety, community development, Public works, health and sanitation, and parks and recreation. The business-type activities of the City are the Water Fund, Sewer Fund, Municipal Golf Course, and the Solid Waste Fund.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Redevelopment Authority, a legally separate Parking Authority and a legally separate Economic Development Corporation for which the City is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 23-25 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the capital projects fund, the CDBG (community development block grant) fund, and the Pennsylvania Motor fund, all of which are considered to be major funds.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 26-33 of this report.

***Proprietary funds.*** The City maintains two proprietary funds. *Enterprise funds* are used to report the same functions as *business-type activities* in the government-wide financial statements. The City uses four enterprise funds to account for the water treatment plant, the wastewater treatment plant, the municipal golf course, and the solid waste and recycling services. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its health, workers' compensation, and casualty/liability insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 34-41 of this report.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund expenditure budget for fiscal year 2003 was approximately \$68.6 million. This was an increase of \$5 million over the previous year amended budget. The General Fund budget complied with financial policies approved by the City Council.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 44-81 of this report.

**Other information.** The combining statements referred to earlier in connection with government fund types, proprietary fund types, fiduciary fund types and component units are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 82-102 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities at the close of December 31, 2003 by approximately \$63,459,000.

A comparative analysis will be provided in future years when prior year information is available.

The City's net assets reflects its investment in capital assets (e.g. land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. The City's investment in its capital assets as reported net of related debt was approximately \$75,591,000 at the end of December 31, 2003. The City's unrestricted deficit was approximately \$21,140,000 at December 31, 2003. It should be noted that the City issued debt in 1996 with a current outstanding balance of approximately \$31,000,000 to assist with funding of the City's pensions with the corresponding assets being recorded on the City's pension trust fund.

City of Allentown, Pennsylvania  
Management Discussion and Analysis  
(Unaudited)

---

**City's Condensed Statement of Net Assets**

	GOVERNMENTAL <u>ACTIVITIES</u>	BUSINESS-TYPE <u>ACTIVITIES</u>	<u>TOTAL</u>
Current and other assets	\$ 14,339,769	\$ 15,559,840	\$ 29,899,609
Capital assets	77,164,357	98,587,293	175,751,650
Other non-current assets	<u>8,751,412</u>	<u>2,865,773</u>	<u>11,617,185</u>
Total assets	<u>\$100,255,538</u>	<u>\$117,012,906</u>	<u>\$217,268,444</u>
Other Liabilities	\$ 14,975,922	\$ 8,857,244	\$ 23,833,166
Long-term liabilities outstanding	<u>82,015,588</u>	<u>47,960,912</u>	<u>129,876,500</u>
Total liabilities	<u>\$ 96,991,510</u>	<u>\$ 56,818,156</u>	<u>\$153,809,666</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 31,054,583	\$ 44,536,897	\$ 75,591,480
Restricted	9,006,858		9,006,858
Unrestricted	<u>(36,797,413)</u>	<u>15,657,853</u>	<u>(21,139,560)</u>
Total net assets	<u>\$ 3,264,028</u>	<u>\$ 60,194,750</u>	<u>\$ 63,458,778</u>

City of Allentown, Pennsylvania  
Management Discussion and Analysis  
(Unaudited)

**City's Condensed Statement of Activities**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Program revenues:			
Charges for services	\$ 7,622,357	\$39,409,894	\$ 47,032,251
Grants and contributions	9,821,013	1,600,757	11,421,770
General revenues:			
Property and other taxes	40,167,520		40,167,520
Investment earnings	403,808	277,106	680,914
Grants and charges not restricted to certain programs	<u>6,939,484</u>	<u>                    </u>	<u>6,939,484</u>
Total revenues	<u>64,954,182</u>	<u>41,287,757</u>	<u>106,241,939</u>
Program expenses:			
General government	5,900,215		5,900,215
Public safety	34,579,587		34,579,587
Community development	6,720,749		6,720,749
Public works	11,008,262		11,008,262
Health and sanitation	3,762,726		3,762,726
Parks and recreation	2,445,365		2,445,365
Debt service interest	5,173,199		5,173,199
Other	4,250,164		4,250,164
Water Fund		10,203,261	10,203,261
Sewer Fund		10,179,095	10,179,095
Municipal Golf Course		611,666	611,666
Solid Waste Fund		<u>9,213,705</u>	<u>9,213,705</u>
Total expenses	<u>73,840,267</u>	<u>30,207,727</u>	<u>104,047,994</u>
(Decrease) increase in net assets before transfers	(8,886,085)	11,080,030	2,193,945
Transfers	<u>3,461,374</u>	<u>(3,461,374)</u>	<u>-</u>
(Decrease) increase in net assets	(5,424,711)	7,618,656	2,193,945
Net assets – January 1, 2003	<u>8,688,739</u>	<u>52,576,094</u>	<u>61,264,833</u>
Net assets – December 1, 2003	<u>\$ 3,264,028</u>	<u>\$60,194,750</u>	<u>\$ 63,458,778</u>

**Governmental activities.** Governmental activities decreased the City's net assets by approximately \$5.4 million. The majority of this was due to the activities in the general fund and capital projects fund. The general fund saw revenues increase in 2003 to approximately 57.8 million due mostly to an approximate 2 mill increase in property taxes. However, this increase was offset by expenditures and transfers out for debt service. This activity resulted in a total net decrease in the general fund of approximately 4.9 million.

This general fund decrease in net assets was offset by an increase in net assets from the capital projects funds of approximately 7 million. This was the result of revenues of approximately 11.3 million, consisting primarily of bond proceeds, in excess of capital outlays of approximately 4.3 million.

Government wide the above activity, combined with expenses related to the recognition of the net of the internal service fund, depreciation, and vacation expense for a total decrease in the government wide net assets of approximately 5.4 million.

**Business-type activities.** Business type activities increased the City's net assets by approximately \$7.6 million. Key elements of this change are as follows:

The City's water fund showed a change in net assets, prior to interest and transfers, of approximately \$4.8 million for 2003. The net income resulted from revenues of approximately \$15 million, which consisted of charges for services of approximately \$14.8 million and grants of approximately \$191 thousand. The revenues were offset by operating expenses of approximately \$10.2 million.

The City's sewer fund showed a change in net assets, prior to interest and transfers, of approximately \$5 million. The net income resulted from revenues of approximately \$15.2 million, which consisted of charges for services of approximately \$15.1 million and grants of approximately \$87 thousand. These revenues were offset by expenses of approximately \$10.2 million.

The City's municipal golf fund showed a change in net assets, prior to interest and transfers, of approximately \$230 thousand for 2003. The net income resulted from revenues of approximately \$840 thousand, the majority of which consisted of charges for services. These revenues were offset by expenses of approximately \$612 thousand.

City of Allentown, Pennsylvania  
 Management Discussion and Analysis  
 (Unaudited)

The City's solid waste fund showed a net income, prior to interest and transfers, of approximately \$700 thousand for 2003. The net income resulted from revenues of approximately \$9.9 million that consisted of charges for services of approximately \$8.6 million and grants of approximately \$1.3 million. These revenues were offset by expenses of approximately \$9.2 million.

In total, the City's enterprise funds showed a combined net income of approximately \$10.8 million before investment income of approximately \$277 thousand and transfers out of approximately \$3.5 million that resulted in a total change in net assets of approximately \$7.6 million.

**FINANCIAL ANALYSIS OF THE MAJOR FUNDS**

**GENERAL FUND**

Revenues of the general fund totaled \$57,788,219 for the year ended December 31, 2003. The following represents a summary of general fund revenue, by source, along with changes from 2002.

	<u>2003 Amount</u>	<u>Increase (Decrease) from 2002</u>	<u>Percentage Increase (Decrease)</u>
Taxes	\$38,926,651	\$2,612,444	7.2%
Licenses and permits	2,805,947	262,138	10.3%
Charges for services	4,320,887	1,355,355	45.7%
Fines and forfeits	735,416	187,033	34.1%
Investment earnings	300,076	(467,940)	(60.9)%
Intergovernmental revenues	8,477,473	1,491,109	21.3%
Other	<u>2,221,769</u>	<u>(2,282,125)</u>	<u>(50.7)%</u>
Total	<u>\$57,788,219</u>	<u>\$3,158,014</u>	<u>5.8%</u>

The increase in taxes is primarily attributed to a 2-mill increase in the City real estate tax rate, from 12.72 to 14.72 mills or 15.7%, which generated approximately \$2.9 million or 14.5% more in additional revenue. Prior year real estate tax collections decreased approximately \$132 thousand or 11.9% from 2003 receipts. At the same time, within the Act 511 tax category, earned income tax receipts declined approximately \$841 thousand or 11.8% while business privilege tax receipts increased approximately \$682 thousand or 13.6%. Deed transfer tax receipts increased approximately \$109 thousand or 8.0%, and occupational privilege tax decreased approximately \$36 thousand or 9.9%.

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Allocations of the property tax levy by purpose for 2003 and the four preceding fiscal years are as follows:

<b>PER \$100 - ASSESSED VALUATION</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
General Revenue	\$0.956	\$0.827	\$0.822	\$0.837	\$0.761
Debt Service	0.419	0.362	0.369	0.353	0.334
Recreation	<u>0.097</u>	<u>0.083</u>	<u>0.132</u>	<u>0.132</u>	<u>0.127</u>
<b>TOTAL TAX RATE</b>	<b><u>\$1.472</u></b>	<b><u>\$1.272</u></b>	<b><u>\$1.322</u></b>	<b><u>\$1.322</u></b>	<b><u>\$1.222</u></b>

The overall increase of approximately \$262 thousand or 10.3% in the licenses and permits category is primarily attributed to the reclassification of receipts from the Rental Inspection Program from Fees for Services in 2002 to Licenses and Permits in 2003. Absent this reclassification there was a general decrease in construction-related permits and fees. Building permits and fees decreased approximately \$189 thousand or 31.9%, plumbing permits and fees decreased approximately \$23 thousand or 15.5%, and electrical permits and fees decreased approximately \$10 thousand or 6.4% despite an increase in fees. Increases in cable TV franchise fees of approximately \$51 thousand or 6.0% and a net change in rental inspection fees of approximately \$76 thousand or 22.5%, helped offset some of the other decreases in this category.

The overall increase of approximately \$1.4 million or 45.7% in charges for services is primarily attributed to a reclassification of receipts from EMS transit fees from other income to charges for services, resulting in an addition of approximately \$2.6 million to this category. This increase was offset by deferred revenue from 911 telephone line service charges of approximately \$229 thousand, or 22.4%, and police extra duty jobs of approximately \$120 thousand, or 59%. The decline in police extra jobs income is due to policy changes in the police department. Swimming pool and recreation fees decreased approximately \$17 thousand or 15% and approximately \$16 thousand or 18.6% respectively, due to poor weather conditions in the summer of 2003.

The decrease in investment earnings is primarily attributed to the unavailability of general fund cash for investment purposes.

The increase in intergovernmental revenues is due to the late receipt of health categorical grants from the Commonwealth that had been due in 2002, which increased revenues in that category by approximately \$1.5 million or 21.3%. Revenues related to police training activities and grants increased approximately \$462 thousand or 37.9%. State aid for pension increased approximately \$543 thousand or 17.1% due primarily to the addition of 22 police officers and 4 firefighters in 2003, which increased the City's state aid allocation. CDBG reimbursements increased approximately \$151 thousand or 63.2%. The City also received a snow control allocation approximately \$176 thousand, for the first time in a number of years.

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The overall decrease in other revenues of approximately \$2.3 million, or 49.3% is due to improved revenue classification processes under the Eden general ledger system, which allows the City to more clearly designate revenues than had been done previously. This reclassification process resulted in the changes noted above with rental inspection license fees, and EMS transit fees.

General fund expenditures totaled approximately \$56.5 million, which represents an increase of approximately \$3.5 million or 5.5% from 2002. The following represents a summary of general fund expenditures for the year ended December 31, 2003, by source, along with changes from 2002.

	<u>2003 Amount</u>	Increase (Decrease) <u>from 2002</u>	Percentage Increase (Decrease) <u>(Decrease)</u>
General government	\$ 5,629,668	\$2,547,324	82.6%
Public safety	32,869,199	(1,416,781)	(4.1)%
Community development	3,208,498	862,046	36.7%
Public works	7,261,455	1,120,527	18.2%
Health and sanitation	3,492,039	(1,694,856)	(32.7)%
Parks and recreation	1,877,648	251,905	12.0%
Capital outlay	<u>2,206,591</u>	<u>869,641</u>	<u>65.0%</u>
Total	<u>\$56,545,098</u>	<u>\$2,539,806</u>	<u>4.3%</u>

The increase in general government expenditures is due to the way that transfers for the payment of pension bond debt service are now recorded. Under the 2002 CAFR treatment, the total expenditures for pension bond debt service were reclassified out of General and Civic to Transfers out to the debt service fund. In 2003, the pension debt service expenditures were reclassified out of Police, Fire and General and Civic to Transfers out to the debt service fund.

The net decrease in public safety expenditures is due to a number of factors. While the EMS function was moved under public safety for 2003, causing an increase in this category, street lighting was re-categorized under public works, creating a partial offsetting decrease. As noted above, pension fund debt service payments, which previously had been paid primarily from public safety-related departments, were transferred to general government.

Community development experienced programmatic increases in both the Director's office and the Bureau of Building standards.

The public works category increased, primarily due to the reclassification of the street lighting bureau under this classification. Previously, street lighting had been categorized under public safety.

Health and sanitation expenses decreased reflecting the transfer of the EMS to the police department.

In 2003, parks and recreation expenses that are reimbursed by the Trexler Fund are recorded on the Private Purpose Trust fund instead of the General Fund.

### **CAPITAL PROJECTS FUNDS**

The City's Capital Projects fund accounts for financial resources expended to acquire or construct property and equipment. For the year ended December 31, 2003, the City expended approximately \$4.3 million for such projects, which is consistent with 2002. Capital Projects Fund balances at December 31, 2003 totaled approximately \$10.0 million, an increase of approximately \$7.3 million over December 31, 2002.

### **PENSION TRUST FUND**

During 1988, an agreement was reached with the Police and Firefighters' bargaining units to transfer membership of all City-employed police and firefighters from the Pennsylvania Municipal Retirement System (PMRS) to the City's pension plans. Prior to this transfer, membership in the City's pension plans had been closed as of June 8, 1976. Non-uniformed employees hired subsequent to June 8, 1976 are required to participate in the PMRS plan.

During 1981, 141 employees voluntarily transferred membership from the City's Officers and Employees (O&E) Pension Fund to the PMRS Pension Plan. In connection with that transfer, the O&E Pension Fund assumed past service costs for these employees in the amount of approximately \$1.9 million, of which approximately \$912 thousand was funded. The remaining obligation is payable to PMRS in 21 equal annual installments beginning in 1991. In order to meet this obligation, the O&E Pension Fund segregated or "partitioned" an asset with a cost of approximately \$366 thousand, the future value of which is equal to this obligation.

At the same time, the City upgraded the benefits for all members of the PMRS Pension Plan, including the new transferees, which resulted in an unfunded past service cost of approximately \$717 thousand, which will be funded by the City over thirty years in annual payments of approximately \$24 thousand.

In 1984, the Commonwealth of Pennsylvania enacted the Municipal Pension Plan Funding Standard and Recovery Act (Act 205), providing for a redistribution of the premium tax on foreign fire and casualty insurance companies to municipalities of the Commonwealth. Under the revised allocation, Allentown received a total of approximately \$3.7 million in State Aid in 2003. The act provided for the establishment of a supplemental state assistance program which began in 1988 for a maximum of 15 years. This program will be funded by annual appropriations from the Commonwealth of

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an amount not to exceed \$35 million. Based on the actuarial and financial criteria contained in the Act, the City has elected to participate in the Supplemental Pension Assistance Program. The Act also allows municipalities to exceed current earned income and real estate tax limits in order to meet the funding requirements contained in the legislation.

The City of Allentown issued taxable bonds in January 1996 which funded the unfunded accrued liability of the City's three pension plans. The amortization of unfunded liability by annual contributions to the pension plans has been replaced by debt service payments on the bonds. The interest rate on the bonds is lower than the amortization rates used by the City's actuary, therefore creating a savings to the City when pension fund investment returns meet the targeted rates.

During the five-year period 1999 to 2003, City contributions, net of \$4,013,570 debt service, as required under Act 205 for the Minimum Municipal Obligation, to its three pension funds were as follows:

	2003	2002	2001	2000	1999
Officers & Employees Pension Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Police Pension Fund	1,244,249	1,193,784	927,478	791,507	442,677
Firefighters' Pension Fund	<u>419,298</u>	<u>187,918</u>	<u>-</u>	<u>30,181</u>	<u>-</u>
Total	<u>\$1,663,547</u>	<u>\$1,381,702</u>	<u>\$927,478</u>	<u>\$821,688</u>	<u>\$442,677</u>

At December 31, 2003, the fund balance – reserved for Police, Fire, and Officers and Employees members' pension benefits was approximately \$123 million. The balances in the employees' pension trust fund have deteriorated due to stock market declines.

### CAPITAL ASSETS

The City's investments in capital assets for its governmental and business-type activities as of December 31, 2003 amount to approximately \$175.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, and improvements and infrastructure.

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	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Land and improvements	\$ 9,374,716	\$ 3,759,048	\$13,133,764
Buildings and improvements	16,725,827	40,562,443	57,288,270
Equipment	10,053,466	15,777,214	25,830,680
Distribution and collection		38,488,588	38,488,588
Transportation and infrastructure	<u>41,010,348</u>	<u>-</u>	<u>41,010,348</u>
Total	<u>\$77,164,357</u>	<u>\$98,587,293</u>	<u>\$175,751,650</u>

Additional information on the City's capital assets can be found in Note 4 on pages 59-60 of this report.

### **LONG TERM DEBT**

As of December 31, 2003, the City's net general obligation bonded debt of \$75,445,000 is well below the legal limit of \$120,826,225 by \$45,381,225. Additional information on the City's long-term debt can be found at Note 8 on pages 68 of this report.

The City's bonds were downgraded in March 2004 by Moody's Investors Services, Inc., from "Baa1" to "Baa2", and by Standard and Poor's Rating Group from "AA-" to "A-", due to rating agency concerns about ongoing weakness in financial operations.

### **CASH MANAGEMENT**

In 1990, following the formation of an investment committee which established investment policy, the City engaged a professional cash management firm, the objective of which was to ensure the highest return on invested funds. Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, obligations of the U.S. Treasury, and collateralized repurchase agreements. Any cash which remained temporarily un-invested until needed to meet expenditures or for investments was held in an insured money market account paying interest from date of deposit to day of withdrawal at a rate determined by market conditions. The City also held various U.S. Treasury and other government securities at year-end which mature in 2004 through 2019. During fiscal year 2003, the average amount of idle cash invested as a percentage of the total cash available was 99.5%. The average yield on investments during the year was 1.12%.

The City's earnings on investments for 2003 amounted to \$4,581,640 compared with \$5,477,100 for 2002. These amounts include interest and dividends earned in the City's pension funds of \$4,281,564 in 2003. Pension funds are administered by investment managers who follow an investment policy approved by the respective pension boards.

The City maintains a pooled cash accounting system for the investment of all available funds. Interest earnings are allocated monthly to individual funds based upon the average daily balance of funds invested in the pooled account. Information on investments of the City as of December 31, 2003 can be found at Note 3.

The City's investment policy is to minimize credit and market risks while maintaining a comparative yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized. All collateral on deposits was held either by the City, its agent, or a financial institution's trust department in the City's name. Over two-thirds of the investments held by the City during the year and at December 31, 2003 are classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board. Remaining investments were held in the City's name either by the counterparty financial institutions' trust department or by a Securities and Exchange Commission-registered brokerage firm.

### **RISK MANAGEMENT**

The City maintains a risk management fund in association with the City's self-insurance program. This fund is supported by other City funds to pay for all claims and premiums, and to hold in trust those revenues required to fund potential losses. Costs involved with the self-insurance program include loss payments, excess insurance premiums, claims adjustment services, and loss prevention services. During 2003, an increase in workers compensation costs, healthcare costs, settlement of prior litigation claims and absence of contributions from the funds depleted the risk management reserves. At December 31, 2003, the city had a liability of approximately \$3,000,000 for future losses.

### **ECONOMIC CONDITION AND OUTLOOK**

As the Commonwealth of Pennsylvania's third largest city, Allentown is strategically located within a 300 mile radius of the larger metropolitan areas on the eastern seaboard of the United States. Excellent transportation systems and close proximity to both New York and Philadelphia make Allentown attractive to businesses and families desirous of locating in an area that offers clean air, good water, and rolling, wooded topography.

Allentown's former historical reliance on heavy industry as a major employer has just about disappeared and local employment trends demonstrate that there has been a definite shift in the Lehigh Valley's labor market over the last ten to fifteen years. A majority of workers are in office settings; employed in managerial, professional, and technical positions. Skill requirements are rising in most industries and occupations, not just in the high-tech sector.

In 2003, reflecting the fiscal malaise felt by cities across the nation, Allentown's economy continued in a stall. City expenses continued to increase at rates double the consumer price index, primarily as a result of previously negotiated or arbitrator-mandated multi-year labor contracts, spiraling health care insurance costs, pension contribution costs, and debt service payments, while investment income has plummeted and other revenue sources remain depressed.

Government, public utilities, education, and health services provide the base for the job market in the City. Allentown has also experienced an increase in financial services employment; banks, insurance, financial planning, and similar services. This sector of the economy epitomizes the service industry with its orientation towards office use and paper and data handling, an area which has shown considerable growth in this decade. The City and Lehigh County continue to seek ways to attract new businesses to the area. New business stimulates the economy by providing jobs and other economic benefits derived from productive employment.

Manufacturing employment in the Allentown-Bethlehem Metropolitan Statistical areas in the areas of apparel, food, electrical/electronic equipment, industrial machinery and printing and publishing are strong components of the overall employment picture. Mack Trucks, Air Products and Chemicals, Inc., Lehigh Portland Cement, Nestle, and Agere have selected the area as their headquarters or as the location of principal plants.

Allentown continues to experience major development in the westernmost section of the City on land formerly owned by the Harry C. Trexler Trust. This land is on the north and south sides of Tilghman Street just within the City limits. A number of large, upscale residential communities of single family homes and condominiums have been completed. The benefit to the City continues as improvements to this land are added to the tax rolls.

#### **REQUESTS FOR INFORMATION**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Allentown, 435 Hamilton Street, Allentown, Pennsylvania 18101.

**CITY OF ALLENTOWN, PENNSYLVANIA**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2003**

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 10,620,151	\$ 7,994,073	\$ 18,614,224	\$ 5,514,831
Receivables (net of allowance for uncollectibles):				
Taxes	1,228,021		1,228,021	
Loans				594,596
Accounts	360,264	7,904,295	8,264,559	
Grants	1,792,805		1,792,805	
Other current assets				283,992
Internal balances	<u>338,528</u>	<u>(338,528)</u>		
Total current assets	<u>14,339,769</u>	<u>15,559,840</u>	<u>29,899,609</u>	<u>6,393,419</u>
<b>NONCURRENT ASSETS:</b>				
Capital assets, net:				
Land	8,103,228	3,759,048	11,862,276	5,071,186
Property held for development	1,271,488		1,271,488	
Buildings	8,322,003	24,437,961	32,759,964	10,948,527
Land and building improvements	8,403,824	16,124,482	24,528,306	2,002,283
Machinery and equipment	5,424,707	12,873,051	18,297,758	112,873
Vehicles	4,628,759	2,189,407	6,818,166	1,027,746
Distribution and collection systems		38,488,588	38,488,588	
Construction in progress	1,643,518	714,756	2,358,274	8,435,698
Transportation and infrastructure	<u>39,366,830</u>		<u>39,366,830</u>	
Total capital assets, net	77,164,357	98,587,293	175,751,650	27,598,313
Net pension asset	331,956		331,956	
Loans receivable	8,249,071		8,249,071	
Other assets	<u>170,385</u>	<u>2,865,773</u>	<u>3,036,158</u>	<u>1,583,879</u>
Total noncurrent assets	<u>85,915,769</u>	<u>101,453,066</u>	<u>179,119,764</u>	<u>29,182,192</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 100,255,538</u></b>	<b><u>\$ 117,012,906</u></b>	<b><u>\$ 217,268,444</u></b>	<b><u>\$ 35,575,611</u></b>
<b>CURRENT LIABILITIES:</b>				
Accounts payable and other current liabilities	\$ 2,429,319	\$ 1,238,141	\$ 3,667,460	\$ 619,663
Wages payable	1,306,667	701,959	2,008,626	
Accrued interest payable	525,834	673,127	1,198,961	
Other liabilities	941,228	154,533	1,095,761	551,261
Accrued vacation	348,221		348,221	
Due to other governments	312,937		312,937	
Deferred revenue	213,032		213,032	
Capital leases payable	309,342	134,964	444,306	22,990
Notes and bonds payable	<u>8,589,342</u>	<u>5,954,520</u>	<u>14,543,862</u>	<u>1,179,365</u>
Total current liabilities	<u>14,975,922</u>	<u>8,857,244</u>	<u>23,833,166</u>	<u>2,373,279</u>
<b>NONCURRENT LIABILITIES:</b>				
Claims liability	2,990,486		2,990,486	
Capital leases payable	1,367,339	253,851	1,621,190	19,748
Accrued vacation	1,165,799		1,165,799	
Deferred revenue				248,106
Notes and bonds payable	<u>76,491,964</u>	<u>47,707,061</u>	<u>124,199,025</u>	<u>12,508,075</u>
Total noncurrent liabilities	<u>82,015,588</u>	<u>47,960,912</u>	<u>129,976,500</u>	<u>12,775,929</u>
<b>TOTAL LIABILITIES</b>	<b><u>96,991,510</u></b>	<b><u>56,818,156</u></b>	<b><u>153,809,666</u></b>	<b><u>15,149,208</u></b>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	31,054,583	44,536,897	75,591,480	13,948,463
Restricted	9,006,858		9,006,858	
Unrestricted	<u>(36,797,413)</u>	<u>15,657,853</u>	<u>(21,139,560)</u>	<u>6,477,940</u>
Total net assets	<u>3,264,028</u>	<u>60,194,750</u>	<u>63,458,778</u>	<u>20,426,403</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 100,255,538</u></b>	<b><u>\$ 117,012,906</u></b>	<b><u>\$ 217,268,444</u></b>	<b><u>\$ 35,575,611</u></b>

See Notes to Financial Statements

**CITY OF ALLENTOWN, PENNSYLVANIA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>FUNCTIONS/PROGRAMS:</b>				
Primary government:				
Governmental activities:				
General government	\$ 5,900,215	\$ 907,740	\$ 116,245	
Public safety	34,579,587	4,495,190	1,319,719	\$ 50,000
Community development	6,720,749	1,234,606	3,874,021	5,000
Public works	11,008,262	407,523	1,366,701	238,758
Health and sanitation	3,762,726	181,465	2,815,399	35,170
Parks and recreation	2,445,365	395,833		
Other	4,250,164			
Interest on long-term debt	5,173,199			
Total governmental activities	73,840,267	7,622,357	9,492,085	328,928
Business-type activities:				
Water fund	10,203,261	14,831,266	190,560	
Sewer fund	10,179,095	15,142,783	87,302	
Municipal golf course	611,666	839,995	1,107	
Solid waste fund	9,213,705	8,595,850	1,321,788	
Total business-type activities	30,207,727	39,409,894	1,600,757	-
Total primary government	<u>\$104,047,994</u>	<u>\$47,032,251</u>	<u>\$11,092,842</u>	<u>\$ 328,928</u>
COMPONENT UNITS	<u>\$ 6,238,506</u>	<u>\$ 5,827,497</u>	<u>\$ 423,106</u>	<u>\$ -</u>

General Revenues:

Property and other taxes  
Grants and charges not restricted to specific programs  
Unrestricted investment earnings  
Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

See Notes to Financial Statements

Schedule consists of both facing pages

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (4,876,230)		\$ (4,876,230)	
(28,714,678)		(28,714,678)	
(1,607,122)		(1,607,122)	
(8,995,280)		(8,995,280)	
(730,692)		(730,692)	
(2,049,532)		(2,049,532)	
(4,250,164)		(4,250,164)	
<u>(5,173,199)</u>		<u>(5,173,199)</u>	
(56,396,897)		(56,396,897)	
	\$ 4,818,565	4,818,565	
	5,050,990	5,050,990	
	229,436	229,436	
	<u>703,933</u>	<u>703,933</u>	
<u>(56,396,897)</u>	<u>10,802,924</u>	<u>(45,593,973)</u>	
			\$ <u>12,097</u>
40,167,520		40,167,520	
6,939,484		6,939,484	
403,808	277,106	680,914	118,110
<u>3,461,374</u>	<u>(3,461,374)</u>	-	-
<u>50,972,186</u>	<u>(3,184,268)</u>	<u>47,787,918</u>	<u>118,110</u>
(5,424,711)	7,618,656	2,193,945	130,207
<u>8,688,739</u>	<u>52,576,094</u>	<u>61,264,833</u>	<u>20,296,196</u>
<u>\$ 3,264,028</u>	<u>\$ 60,194,750</u>	<u>\$ 63,458,778</u>	<u>\$ 20,426,403</u>

**CITY OF ALLENTOWN, PENNSYLVANIA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2003**

	General	Pennsylvania Motor
<u>ASSETS</u>		
Cash and cash equivalents	\$ -	\$ 120,577
Receivables:		
Taxes	1,228,021	
Loans		
Accounts		
Grants	1,063,873	
Due from other funds	<u>426,643</u>	<u>24,271</u>
TOTAL	<u>\$ 2,718,537</u>	<u>\$ 144,848</u>
<u>LIABILITIES AND FUND (DEFICIT) BALANCES</u>		
<b>LIABILITIES</b>		
Accounts payable	913,106	
Accrued wages payable	1,270,840	24,120
Due to other funds	172,532	
Due to other governments	222,154	
Deferred revenues	1,161,467	
Other liabilities	<u>329,655</u>	
Total liabilities	<u>4,069,754</u>	<u>24,120</u>
<b>FUND (DEFICIT) BALANCES:</b>		
Reserved for encumbrances		
Reserved for specific fund balances		120,728
Unreserved, undesignated	<u>(1,351,217)</u>	
Total fund (deficit) balances	<u>(1,351,217)</u>	<u>120,728</u>
TOTAL	<u>\$ 2,718,537</u>	<u>\$ 144,848</u>

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

- Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds
- Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds
- Accrued interest payable included on the statement of net assets
- Net pension asset included on the statement of net assets
- Assets and liabilities of the internal service fund reported in the statement of net assets are used to charge the cost of insurance to individual funds and are not reported in the funds
- Debt issuance costs are deferred and amortized on the statement of net assets
- Long-term liabilities, including bonds payable, (net of issuance cost and premium) are not due and payable in the current period and therefore are not reported in the funds

Net assets of governmental activities

See Notes to Financial Statements

Schedule consists of both facing pages

Community Development Block Grant	Capital Projects	Total Governmental Funds
\$ 866,088	\$ 8,726,856	\$ 9,713,521
		1,228,021
8,249,071		8,249,071
	360,264	360,264
728,932		1,792,805
<u>11,696</u>	<u>3,272,403</u>	<u>3,735,013</u>
<u>\$9,855,787</u>	<u>\$12,359,523</u>	<u>\$25,078,695</u>
321,598	\$ 538,394	\$ 1,773,098
9,054		1,304,014
427,347	1,662,604	2,262,483
90,783		312,937
		1,161,467
<u>120,875</u>	<u>490,698</u>	<u>941,228</u>
<u>969,657</u>	<u>2,691,696</u>	<u>7,755,227</u>
	5,677,893	5,677,893
8,886,130	3,989,934	12,996,792
		<u>(1,351,217)</u>
<u>8,886,130</u>	<u>9,667,827</u>	17,323,468
<u>\$9,855,787</u>	<u>\$12,359,523</u>	
		77,164,357
		948,435
		(525,834)
		331,956
		(3,876,732)
		170,385
		<u>(88,272,007)</u>
		<u>\$ 3,264,028</u>

**CITY OF ALLENTOWN, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	General	Pennsylvania Motor	Community Development Block Grant
<b>REVENUES:</b>			
Taxes	\$38,926,651		
Licenses and permits	2,805,947		
Charges for services	4,320,887		
Fines and forfeits	735,416		
Investment earnings	300,076	\$ 16,195	\$ 3,900
Intergovernmental revenues	8,477,473	1,613,574	3,879,021
Other	2,221,769	4,735	111,036
<b>Total revenues</b>	<b>57,788,219</b>	<b>1,634,504</b>	<b>3,993,957</b>
<b>EXPENDITURES:</b>			
Current:			
General government	5,629,668		
Public safety	32,869,199		
Community development	3,208,498		3,429,939
Public works	7,261,455	1,618,015	
Health and sanitation	3,492,039		
Parks and recreation	1,877,648		
Debt service:			
Principal			415,000
Interest			
Capital outlay	2,206,591		
<b>Total expenditures</b>	<b>56,545,098</b>	<b>1,618,015</b>	<b>3,844,939</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,243,121</b>	<b>16,489</b>	<b>149,018</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from refunding bonds	8,971,562		
Proceeds from bonds			
Payment to refunded bonds escrow agent	(8,911,809)		
Transfers in	5,882,858		
Transfers out	(12,549,343)		
Capital lease obligations	559,778		
Payment of bond issuance costs	(59,753)		
<b>Total other financing sources and uses</b>	<b>(6,106,707)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(4,863,586)</b>	<b>16,489</b>	<b>149,018</b>
<b>FUND BALANCE, BEGINNING</b>	<b>3,512,369</b>	<b>104,239</b>	<b>8,737,112</b>
<b>FUND BALANCE, ENDING</b>	<b>\$ (1,351,217)</b>	<b>\$ 120,728</b>	<b>\$ 8,886,130</b>

See Notes to Financial Statements

Schedule consists of both facing pages

Debt Service	Capital Projects	Total Governmental Funds
		\$38,926,651
		2,805,947
	\$ 122,063	4,442,950
		735,416
	83,637	403,808
	1,123,876	15,093,944
	<u>61,448</u>	<u>2,398,988</u>
	<u>1,391,024</u>	<u>64,807,704</u>
\$ 24,640		5,654,308
		32,869,199
		6,638,437
		8,879,470
		3,492,039
		1,877,648
5,540,000		5,955,000
4,456,400		4,456,400
<u>-</u>	<u>4,328,064</u>	<u>6,534,655</u>
<u>10,021,040</u>	<u>4,328,064</u>	<u>76,357,156</u>
<u>(10,021,040)</u>	<u>(2,937,040)</u>	<u>(11,549,452)</u>
		8,971,562
	9,939,499	9,939,499
		(8,911,809)
10,021,040	150,000	16,053,898
		(12,549,343)
		559,778
	<u>(110,632)</u>	<u>(170,385)</u>
<u>10,021,040</u>	<u>9,978,867</u>	<u>3,893,948</u>
-	7,041,827	2,343,748
<u>-</u>	<u>2,626,000</u>	<u>14,979,720</u>
<u>\$ -</u>	<u>\$9,667,827</u>	<u>\$17,323,468</u>

**CITY OF ALLENTOWN, PENNSYLVANIA**

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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Amounts reported for governmental activities in the statement of activities  
(pages 24-25) are different because:

Net change in fund balances - total governmental funds (pages 28-29)	\$ 2,343,748
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays in the current period exceeded depreciation expense.	389,426
Revenues related to real estate taxes and deferred revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	146,478
Vacation expenses reported in the statement of activities that do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(705,451)
Activities of the internal service fund are reported as net expense in the statement of activities.	(2,890,839)
Change in net pension asset not reflected in the funds.	(6,775)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of those differences in the treatment of long-term debt and related items.	<u>(4,701,298)</u>
Change in net assets of governmental activities (pages 24-25)	<u>\$ (5,424,711)</u>

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See Notes to Financial Statements

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CITY OF ALLENTOWN, PENNSYLVANIA

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
 BUDGETARY BASIS - GENERAL, SPECIAL REVENUE, AND DEBT SERVICE FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

General Fund				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES:</b>				
Taxes	\$ 40,419,711	\$ 40,419,711	\$ 39,109,369	\$ (1,310,342)
Licenses and permits	3,123,264	3,123,264	2,805,947	(317,317)
Charges for services	7,886,941	7,886,941	7,954,089	67,148
Fines and forfeits	843,000	843,000	735,415	(107,585)
Investment earnings	826,000	826,000	667,532	(158,468)
Intergovernmental revenues	10,078,514	10,078,514	7,580,187	(2,498,327)
Other	4,928,066	4,945,327	3,823,340	(1,121,987)
<b>Total revenues</b>	<b>68,105,496</b>	<b>68,122,757</b>	<b>62,675,879</b>	<b>(5,446,878)</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General government	8,400,861	8,770,683	8,222,406	548,277
Public safety	36,215,033	37,284,561	36,948,301	336,260
Community development	3,738,837	5,538,857	4,168,580	1,370,277
Public works	7,726,272	7,838,297	7,462,322	375,975
Health and sanitation	3,915,642	4,197,510	3,818,550	378,960
Parks and recreation	2,933,937	2,984,736	2,879,530	105,206
Capital outlay	1,800,260	1,977,016	1,762,907	214,109
Debt service-principal				
Debt service-interest				
<b>Total expenditures</b>	<b>64,730,842</b>	<b>68,591,660</b>	<b>65,262,596</b>	<b>3,329,064</b>
Excess (deficiency) of revenues over (under) expenditures	3,374,654	(468,903)	(2,586,717)	(2,117,814)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers-out	(6,399,147)	(6,243,259)	(6,180,336)	62,923
Operating transfers-in	1,400,000	1,400,000	1,365,000	(35,000)
<b>Total other financing sources (uses), net</b>	<b>(4,999,147)</b>	<b>(4,843,259)</b>	<b>(4,815,336)</b>	<b>27,923</b>
<b>Net change in fund balances</b>	<b>\$ (1,624,493)</b>	<b>\$ (5,312,162)</b>	<b>(7,402,053)</b>	<b>\$ (2,145,737)</b>
Add back reserve for encumbrances			1,286,696	
Net effect of other income, and expenditure accruals			<u>1,251,771</u>	
<b>Net change in fund balances</b>			<b>(4,863,586)</b>	
<b>FUND BALANCES, BEGINNING OF YEAR</b>			<u>3,512,369</u>	
<b>FUND BALANCES, END OF YEAR</b>			<b>\$ (1,351,217)</b>	

See notes to financial statements.

Schedule consists of both facing pages

Pennsylvania Motor Fund			Debt Service		
Original and Final Budget	Actual	Variance	Original and Final Budget	Actual	Variance
\$ 34,000	\$ 16,195	\$ (17,805)			
1,635,160	1,613,574	(21,586)			
	4,735	4,735			
1,669,160	1,634,504	(34,656)	-	-	-
			\$ 24,640	\$ 24,640	-
1,731,748	1,618,015	(113,733)			
			5,670,000	5,540,000	\$ 130,000
			4,456,627	4,456,400	227
1,731,748	1,618,015	(113,733)	10,151,267	10,021,040	130,227
(62,588)	16,489	79,077	(10,151,267)	(10,021,040)	(130,227)
			10,021,040	10,021,040	-
-	-	-	10,021,040	10,021,040	-
<u>\$ (62,588)</u>	16,489	<u>\$ 79,077</u>	<u>\$ (130,227)</u>	-	<u>\$ (130,227)</u>
	16,489			-	
	104,239			-	
<u>\$ 120,728</u>			<u>\$</u>	-	

**CITY OF ALLENTOWN, PENNSYLVANIA**

**BALANCE SHEET  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2003**

	Water Fund	Sewer Fund
<u><b>ASSETS</b></u>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,232,599	\$ 4,150,360
Accounts receivable:		
Metered charges	4,136,108	2,685,346
Refuse collection		
Other	28,460	31,746
Signatories	<u>383,792</u>	<u>1,525,221</u>
Total accounts receivable	4,548,360	4,242,313
Allowance for doubtful accounts	<u>820,286</u>	<u>524,136</u>
Net accounts receivable	<u>3,728,074</u>	<u>3,718,177</u>
Due from other funds	<u>39,338</u>	<u>1,682,599</u>
Total current assets	<u>6,000,011</u>	<u>9,551,136</u>
<b>FIXED ASSETS:</b>		
Land	2,595,840	28,450
Buildings	11,118,414	29,179,888
Land and building improvements	14,401,667	2,211,698
Machinery and equipment	18,878,225	10,172,892
Vehicles	2,146,929	1,701,745
Distribution and collection systems	38,967,061	10,557,977
Construction in progress	<u>35,988</u>	<u>678,768</u>
Gross fixed assets	88,144,124	54,531,418
Accumulated depreciation	<u>(24,100,212)</u>	<u>(26,283,347)</u>
Net fixed assets	<u>64,043,912</u>	<u>28,248,071</u>
Other assets	<u>1,946,181</u>	<u>919,592</u>
<b>TOTAL</b>	<u><b>\$ 71,990,104</b></u>	<u><b>\$ 38,718,799</b></u>

See notes to financial statements

Schedule consists of both facing pages

<u>Municipal Golf Course</u>	<u>Solid Waste Fund</u>	<u>Totals</u>	<u>Internal Service Fund</u>
<u>\$ 5,575</u>	<u>\$ 1,605,539</u>	<u>\$ 7,994,073</u>	<u>\$ 906,630</u>
		6,821,454	
	1,054,886	1,054,886	
		60,206	
<u>-</u>	<u>-</u>	<u>1,909,013</u>	<u>-</u>
<u>-</u>	<u>1,054,886</u>	<u>9,845,559</u>	
<u>-</u>	<u>596,842</u>	<u>1,941,264</u>	<u>-</u>
<u>-</u>	<u>458,044</u>	<u>7,904,295</u>	
<u>-</u>	<u>-</u>	<u>1,721,937</u>	<u>-</u>
<u>5,575</u>	<u>2,063,583</u>	<u>17,620,305</u>	<u>906,630</u>
1,134,758		3,759,048	
235,492	844,014	41,377,808	
2,692,739	1,416,272	20,722,376	
547,472	346,344	29,944,933	
265,071	2,388,600	6,502,345	
37,465		49,562,503	
<u>-</u>	<u>-</u>	<u>714,756</u>	
4,912,997	4,995,230	152,583,769	
<u>(1,486,283)</u>	<u>(2,126,634)</u>	<u>(53,996,476)</u>	<u>-</u>
<u>3,426,714</u>	<u>2,868,596</u>	<u>98,587,293</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>2,865,773</u>	<u>-</u>
<u>\$ 3,432,289</u>	<u>\$ 4,932,179</u>	<u>\$ 119,073,371</u>	<u>\$ 906,630</u>

(continued)

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**BALANCE SHEET**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2003**

	Water Fund	Sewer Fund
<u>LIABILITIES AND FUND EQUITY (DEFICIT)</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 297,823	\$ 301,074
Accrued wages payable	230,622	394,498
Accrued interest payable	389,277	283,850
Due to other funds	1,965,869	
Capital leases payable		32,405
Other liabilities	71,989	
Current portion of long term liabilities	<u>4,169,520</u>	<u>1,785,000</u>
Total current liabilities	<u>7,125,100</u>	<u>2,796,827</u>
<b>LONG-TERM LIABILITIES:</b>		
Capital lease payable		146,226
Notes payable	117,061	
Bonds payable	30,545,000	17,045,000
Claims liability		
Total long-term liabilities	<u>30,662,061</u>	<u>17,191,226</u>
Total liabilities	<u>37,787,161</u>	<u>19,988,053</u>
<b>FUND EQUITY (DEFICIT):</b>		
Invested in capital assets net of related debt	29,212,331	9,239,440
Unrestricted	<u>4,990,612</u>	<u>9,491,306</u>
Total fund equity (deficit)	<u>34,202,943</u>	<u>18,730,746</u>
TOTAL	<u>\$ 71,990,104</u>	<u>\$ 38,718,799</u>

See Notes to Financial Statements

Schedule consists of both facing pages

Municipal Golf Course	Solid Waste Fund	Totals	Internal Service Fund
\$ 12,601	\$ 626,643	\$ 1,238,141	\$ 656,221
11,910	64,929	701,959	2,653
94,596		673,127	
		2,060,465	1,134,002
	102,559	134,964	
	82,544	154,533	
		5,954,520	
<u>119,107</u>	<u>876,675</u>	<u>10,917,709</u>	<u>1,792,876</u>
	107,625	253,851	
		117,061	
		47,590,000	
			<u>2,990,486</u>
<u>-</u>	<u>107,625</u>	<u>47,960,912</u>	<u>2,990,486</u>
<u>119,107</u>	<u>984,300</u>	<u>58,878,621</u>	<u>4,783,362</u>
3,426,714	2,658,412	44,536,897	
(113,532)	1,289,467	15,657,853	(3,876,732)
<u>3,313,182</u>	<u>3,947,879</u>	<u>60,194,750</u>	<u>(3,876,732)</u>
<u>\$ 3,432,289</u>	<u>\$ 4,932,179</u>	<u>\$ 119,073,371</u>	<u>\$ 906,630</u>

**CITY OF ALLENTOWN, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY (DEFICIT)  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2003**

	Water Fund	Sewer Fund	Municipal Golf Course
<b>OPERATING REVENUES:</b>			
Charges for services:			
Metered charges	\$ 13,068,349	\$ 8,299,457	
Refuse collections			
Recycling			
Other charges	1,574,501	6,658,985	\$ 834,350
Grants	190,560	87,302	1,107
Miscellaneous	<u>67,890</u>	<u>184,341</u>	<u>5,645</u>
Total operating revenues	<u>14,901,300</u>	<u>15,230,085</u>	<u>841,102</u>
<b>OPERATING EXPENDITURES:</b>			
Personnel services	4,228,158	5,154,720	196,890
Utility services	533,178	790,757	14,862
Contracted services	493,143	792,809	60,449
Materials and supplies	1,042,213	1,303,911	65,371
Claims and benefits			
Depreciation and amortization	2,203,401	1,268,603	224,981
Miscellaneous	<u>67,154</u>	<u>41,161</u>	<u>49,113</u>
Total operating expenditures	<u>8,567,247</u>	<u>9,351,961</u>	<u>611,666</u>
<b>OPERATING INCOME (LOSS)</b>	<u>6,334,053</u>	<u>5,878,124</u>	<u>229,436</u>
<b>NONOPERATING (EXPENSE) REVENUE:</b>			
Investment income	64,616	114,556	703
Interest expense	(1,636,014)	(827,134)	
Miscellaneous	<u>120,526</u>	<u>-</u>	
Total nonoperating (expense) revenue	<u>(1,450,872)</u>	<u>(712,578)</u>	<u>703</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	4,883,181	5,165,546	230,139
<b>TRANSFERS</b>	<u>(1,545,679)</u>	<u>(1,239,422)</u>	<u>(244,596)</u>
<b>NET INCOME (LOSS)</b>	3,337,502	3,926,124	(14,457)
<b>FUND EQUITY (DEFICIT), BEGINNING</b>	<u>30,865,441</u>	<u>14,804,622</u>	<u>3,327,639</u>
<b>FUND EQUITY (DEFICIT), ENDING</b>	<u>\$ 34,202,943</u>	<u>\$ 18,730,746</u>	<u>\$ 3,313,182</u>

See Notes to Financial Statements

Schedule consists of both facing pages

Solid Waste Fund	Totals	Internal Service Fund
	\$ 21,367,806	
\$ 8,254,725	8,254,725	
336,145	336,145	
	9,067,836	\$ 8,393,958
1,321,788	1,600,757	
4,980	262,856	32,205
<u>9,917,638</u>	<u>40,890,125</u>	<u>8,426,163</u>
1,365,379	10,945,147	
11,429	1,350,226	
6,955,350	8,301,751	
172,161	2,583,656	11,273,821
432,320	4,129,305	
277,066	434,494	-
<u>9,213,705</u>	<u>27,744,579</u>	<u>11,273,821</u>
<u>703,933</u>	<u>13,145,546</u>	<u>(2,847,658)</u>
97,231	277,106	
	(2,463,148)	
	120,526	-
<u>97,231</u>	<u>(2,065,516)</u>	<u>-</u>
801,164	11,080,030	(2,847,658)
<u>(431,677)</u>	<u>(3,461,374)</u>	<u>(43,181)</u>
369,487	7,618,656	(2,890,839)
<u>3,578,392</u>	<u>52,576,094</u>	<u>(985,893)</u>
<u>\$ 3,947,879</u>	<u>\$ 60,194,750</u>	<u>\$ (3,876,732)</u>

**CITY OF ALLENTOWN, PENNSYLVANIA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Water Fund	Sewer Fund	Municipal Golf Course
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 14,483,742	\$ 14,301,316	\$ 841,102
Payments to suppliers for services	(1,893,345)	(2,891,724)	(207,845)
Payments to employees	<u>(4,294,551)</u>	<u>(5,153,073)</u>	<u>(196,818)</u>
Net cash provided by (used in) operating activities	<u>8,295,846</u>	<u>6,256,519</u>	<u>436,439</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers	(1,545,679)	(1,239,422)	(244,596)
Other income	<u>120,526</u>	<u>-</u>	<u>-</u>
Net cash used in noncapital financing activities	<u>(1,425,153)</u>	<u>(1,239,422)</u>	<u>(244,596)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(1,166,894)	(669,714)	(242,230)
Advance from/to other funds	913,656	842,137	846
Capital bond issuance costs	(120,000)	(460,000)	
Principal paid on capital debt	(6,517,351)	(6,990,000)	
Proceeds from the issuance of capital debt	2,705,000	5,820,000	
Payments of obligations under capital leases		(50,000)	
Interest paid on long term obligations	<u>(1,692,983)</u>	<u>(872,423)</u>	<u>-</u>
Net cash (used in) provided by capital and related financing activities	<u>(5,878,572)</u>	<u>(2,380,000)</u>	<u>(241,384)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES,</b>			
Interest received	<u>64,616</u>	<u>114,556</u>	<u>703</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,056,737	2,751,653	(48,838)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>1,175,862</u>	<u>1,398,707</u>	<u>54,413</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 2,232,599</u>	<u>\$ 4,150,360</u>	<u>\$ 5,575</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 6,334,053	\$ 5,878,124	\$ 229,436
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,203,401	1,268,603	224,981
Accounts receivable	(417,558)	(928,769)	
Vouchers and accounts payable	170,354	36,914	(18,050)
Accrued payroll	(66,393)	1,647	72
Other liabilities	<u>71,989</u>	<u>-</u>	<u>-</u>
Total adjustments	<u>1,961,793</u>	<u>378,395</u>	<u>207,003</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>\$ 8,295,846</u>	<u>\$ 6,256,519</u>	<u>\$ 436,439</u>
<b>Schedule of noncash capital and related financing activities,</b>			
Assets acquired under capital leases	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 228,631</u>

See Notes to Financial Statements

Schedule consists of both facing pages

Solid Waste Fund	Totals	Internal Service Fund
\$ 9,885,634	\$ 39,511,794	\$ 8,426,163
(7,347,572)	(12,340,486)	(11,793,789)
<u>(1,400,821)</u>	<u>(11,045,263)</u>	<u>-</u>
1,137,241	16,126,045	(3,367,626)
(431,677)	(3,461,374)	(43,180)
<u>-</u>	<u>120,526</u>	<u>-</u>
(431,677)	(3,340,848)	(43,180)
(22,682)	(2,101,520)	
	1,756,639	1,227,752
	(580,000)	
	(13,507,351)	
	8,525,000	
(17,141)	(67,141)	
<u>-</u>	<u>(2,565,406)</u>	<u>-</u>
(39,823)	(8,539,779)	1,227,752
97,231	277,106	-
762,972	4,522,524	(2,183,054)
<u>842,567</u>	<u>3,471,549</u>	<u>3,089,684</u>
\$ 1,605,539	\$ 7,994,073	\$ 906,630
\$ 703,933	\$ 13,145,546	\$ (2,847,658)
432,320	4,129,305	
(32,004)	(1,378,331)	
31,679	220,897	(426,765)
(35,442)	(100,116)	
<u>36,755</u>	<u>108,744</u>	<u>(93,203)</u>
433,308	2,980,499	(519,968)
\$ 1,137,241	\$ 16,126,045	\$ (3,367,626)
\$ 90,998	\$ 319,629	\$ -

**CITY OF ALLENTOWN, PENNSYLVANIA**

**STATEMENT OF FIDUCIARY NET ASSETS  
DECEMBER 31, 2003**

	Pension Trust Funds	Private Purpose Trexler Park Fund	Agency Fund
<u>ASSETS</u>			
CASH AND CASH EQUIVALENTS		\$ 45,079	\$ 7,675,774
INTEREST RECEIVABLE	\$ 369,391		
INVESTMENTS, At fair value	<u>125,542,384</u>		
TOTAL	<u>\$ 125,911,775</u>	<u>\$ 45,079</u>	<u>\$ 7,675,774</u>
<u>LIABILITIES AND NET ASSETS</u>			
LIABILITIES:			
Accounts payable	\$ 1,426,971	\$ 5,598	
Accrued wages		9,091	
Payroll tax liabilities			\$ 893,197
Due to other governments	<u>1,517,758</u>		<u>6,782,577</u>
Total liabilities	<u>2,944,729</u>	<u>14,689</u>	<u>7,675,774</u>
NET ASSETS:			
Held in trust for pension benefits and other purposes	<u>122,967,046</u>	<u>30,390</u>	<u>-</u>
TOTAL	<u>\$ 125,911,775</u>	<u>\$ 45,079</u>	<u>\$ 7,675,774</u>

See Notes to Financial Statements

**CITY OF ALLENTOWN, PENNSYLVANIA**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Pension Trust Funds	Private Purpose Trexler Park Fund
<b>ADDITIONS:</b>		
Contributions:		
Employer	\$ 1,663,547	
Plan members	<u>1,599,051</u>	
Total contributions	<u>3,262,598</u>	
Investment earnings:		
Net appreciation in fair value of investments	12,712,456	
Interest and dividends	4,281,564	\$ 256
Less investment expenses	<u>(482,987)</u>	<u>-</u>
Net investment earnings	<u>16,511,033</u>	<u>256</u>
Other income:		
Grants		1,366,107
Miscellaneous	<u>218,503</u>	<u>18,473</u>
Total other income	<u>218,503</u>	<u>1,384,580</u>
Total additions	<u>19,992,134</u>	<u>1,384,836</u>
<b>DEDUCTIONS:</b>		
Benefits paid to recipients	10,998,344	
Parks and recreation		1,451,847
Administrative and other fees	<u>175,474</u>	
Total deductions	<u>11,173,818</u>	<u>1,451,847</u>
<b>CHANGE IN NET ASSETS</b>	8,818,316	(67,011)
<b>NET ASSETS, BEGINNING</b>	<u>114,148,730</u>	<u>97,401</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 122,967,046</u>	<u>\$ 30,390</u>

See Notes to Financial Statements

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. NATURE OF OPERATIONS AND SUMMARY  
OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting methods and procedures adopted by the City of Allentown, Pennsylvania (the "City"), conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following notes to the financial statements are an integral part of the City's financial statements.

**FINANCIAL REPORTING ENTITY**

The City was incorporated in 1762 under the provisions of the constitution and general statutes of the Commonwealth of Pennsylvania. The City is a third class city, as defined by state statutes. The City operates under a Home Rule Charter form of government and provides a full range of services, including public safety, roads, sanitation, health, culture and recreation, and general government services to its approximately 107,000 residents. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units, discussed in Note 2, are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

**NEW ACCOUNTING PRONOUNCEMENTS**

In June 1999, the Governmental Accounting Standards Board ("GASB") issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* ("GASB 34"). GASB 34 requires significant changes including the preparation of full accrual financial statements on a government-wide basis, the addition of a Management Discussion and Analysis section providing an overall analysis of the City's financial position, results of operations and a change in focus of the fund financial statements to major funds.

In June 2001, GASB issued Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, which amended GASB 34 by clarifying or modifying certain of its provisions, and Statement No. 38, *Certain Financial Statement Note Disclosures*, which modified, established or rescinded certain financial statement disclosure requirements.

The City was required to adopt GASB 34, 37 and 38 in its 2003 fiscal year. Accordingly, the accompany financial statements and notes thereto reflect the changes required by these statements.

#### **BASIS OF PRESENTATION**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program* revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

GENERAL FUND – is used to account for all financial transactions applicable to the general operations of the City except for those required to be accounted for in another fund.

Pennsylvania Motor Fund– is used to account for the financial activity of the City's liquid fuels tax allocation from the Commonwealth of Pennsylvania.

Community Development Block Grant– is used to account for the financial activity of the City's Community Development Block Grant program and other urban renewal and improvement grants.

DEBT SERVICE FUND - is used to account for the accumulation of resources for, and the payment of, general long-term bonds and other debt principal, interest and related costs.

CAPITAL PROJECTS FUND – is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The City reports five major proprietary funds:

WATER FUND – is used to account for all costs incurred in the collection, treatment and distribution of water for consumption and is operated in a manner similar to a private business enterprise to be self-supporting.

SEWER FUND – is used to account for the operation and maintenance of the sanitary sewage treatment plant and is operated in a manner similar to a private business enterprise and is intended to be self-supporting.

SOLID WASTE FUND – is used to account for the administration of the collection and disposal of municipal waste and recyclables in the City and is operated in a manner similar to a private business enterprise and is intended to be self-supporting.

MUNICIPAL GOLF COURSE FUND – is used to account for the operation and maintenance of the 18-hole Allentown Municipal Golf Course and is operated in a manner similar to a private business enterprise and is intended to be self-supporting.

INTERNAL SERVICE FUND – is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit on a cost-reimbursement basis for the City's self-insurance program and externally administered insurance programs.

The City's Fiduciary Fund accounts for the Pension Trust Fund, Trexler Park Fund and Agency Fund.

PENSION TRUST FUND – is used to account for pension benefits for employees. The principal revenue sources for this fund is employer and employee contributions. The Pension Trust Fund is accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. The Pension Trust Fund accounts for the City's three defined benefit pension plans, officers and employees, police and firemen.

PRIVATE PURPOSE TRUST FUND – The Trexler Park Fund is used for maintenance, development and extension of the City's park system. The Trexler Park fund is a private purpose trust fund since the principal can be expended.

AGENCY FUND – is used to account for funds held in escrow for other parties. The Agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The agency fund accounts for the earned income taxes, payroll withholdings and tax collections from the Allentown School District and the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include charges to customers or applicants for goods, services, or privileges provided and operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for services. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **BUDGETARY ACCOUNTING CONTROL**

The City's budget is prepared primarily on a cash basis and includes appropriations to cover prior and anticipated current encumbrances. Budgets are approved by City Council which contain estimated revenues adequate to fully fund appropriations. Appropriations not reserved for encumbrances lapse at year end. No supplementary budgetary appropriations were required during the year. Annual operating budgets are legally adopted for the General Fund, Pennsylvania Motor Fund, and Debt Service Fund.

The budget is legally controlled at the standard account level. A standard account is a detailed account for an expenditure. Transfers between standard accounts require the approval of designated officials and, if above \$5,000, a majority of City Council.

### **CASH AND CASH EQUIVALENTS AND INVESTMENTS**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash of all funds, except pension trust and certain enterprise and special revenue funds, is maintained in a cash and investment pool. Interest earnings, as well as gains and losses, are allocated to funds based on the average daily balances of funds invested in the pool. The balance recorded as cash and cash equivalents in each fund type is principally the allocation of the pooled cash balance. The balance recorded as investments in each fund type, except those in pension trust funds, is principally the allocation of the pooled investment balance. Investments are carried at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values. Insurance holdings, if any, are valued at reported contract values. Investments of the discretely presented component units are carried at cost, which does not differ materially from fair value.

For purposes of the statement of cash flows, the City considers all cash accounts which are not subject to withdrawal restrictions or penalties, and all highly liquid investments purchases with an original maturity of three months or less, to be cash equivalents.

### **INTERNAL BALANCES**

Internal balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

### **RECEIVABLES AND PAYABLES**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is calculated based on collection history and was approximately \$807,000 at December 31, 2003.

## INVENTORIES

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are rendered as expenditures when consumed rather than when purchased. The City has determined that any unused materials and supplies on hand at December 31, 2003 are immaterial.

## CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The City maintains a capitalization threshold of \$5,000 for all capital assets.

General infrastructure assets acquired prior to December 31, 2003 consist of bridges, traffic lights and signals, streets and street lights, and storm sewers and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>YEARS</u>
Buildings and improvements	35-80
Machinery and equipment	5-25
Vehicles	2-10
Reservoirs and water and sewer distribution and collection systems	99
Infrastructure	10-99

## RESTRICTED NET ASSETS

Net assets are restricted by laws or regulations of other governments.

## COMPENSATED ABSENCES

City employees are granted vacation and sick leave in varying amounts based on their length of employment. Vacation leave carried by employees varies depending upon collective bargaining agreements and City policy. Accumulated sick leave may be compensated to employees at the rate of \$10 to \$15 per day, depending upon employees' classification, up to 100 days upon retirement after 23 years of service or mandatory retirement due to age or disability.

### **DEFERRED REVENUES**

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Such amounts are measurable but are not available. Deferred revenue may also result from revenues being collected in advance of the fiscal year to which they apply or in advance of their legal due date.

### **BOND DISCOUNTS AND ISSUANCE COSTS**

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the bond outstanding method which approximates the interest method. Bond discounts are deducted from the bonds outstanding, and issuance costs are presented as other assets.

### **PROPERTY TAXES**

Significant dates on the City's property tax calendar are as follows:

Levy date:	February 1
Due dates:	Net by April 5 Gross by June 5 or by installments due April 15, May 15, June 15 and July 15
Lien date:	December 31

Property taxes not being paid in installments become delinquent on June 6. The City continues to collect delinquent property taxes up to December 31 of the current year. At that time, all unpaid school and real estate taxes are certified to the Portnoff Law Associates for further collection and possible tax sales over an additional 30-month period.

The 2003 tax levy for improvements was 8.93 mills and 41.95 mills for land.

### **INTERFUND TRANSACTIONS**

As a result of its operations, the City effects a variety of transactions between funds to finance operations. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2003, appropriate interfund receivables or payables have been established.

### **INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues represent revenues received from the Commonwealth of Pennsylvania and federal agencies generally to fund specific programs. Awards made on the basis of entitlement periods are recorded as intergovernmental revenues when entitlement occurs and the revenues are measurable and available. Reimbursement type grants are recorded as revenues when the related expenditures or expenses are incurred. The amount recorded as due from other governments consists primarily of amounts due from the Commonwealth of Pennsylvania.

### **SELF-INSURANCE**

The City is self-insured for workers' compensation, property, casualty, and general liability claim losses. At December 31, 2003, the City carried an excess loss insurance policy which limited its liability to \$350,000 per occurrence for workers' compensation and \$100,000 per occurrence for property and flood loss. Governmental and proprietary funds are charged based on historical loss patterns. These charges are reimbursed through the various funds. The City funds reported loss claims based upon the evaluation of an independent claims manager. The City maintains the integrity of funds so provided, together with earnings thereon, in the Risk Management Internal Service Fund solely for purposes of liquidating claims incurred. Under its self-insurance plan, the City accrues the estimated expense of workers' compensation, property, casualty and general liability claim costs based on claims filed subsequent to year end, and an additional amount for incurred but not yet reported claims based on prior experience. An accrual for such costs of \$2,990,486 is included in the accompanying financial statements. Claim payments based on actual claims ultimately filed could differ materially from these estimates. Settled claims from these risks have not exceeded commercial insurance coverage for the past four years.

### **USE OF ESTIMATES**

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 the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## **2. REPORTING ENTITY**

In accordance with GASB Statement No 14 "The Financial Reporting Entity", the City has evaluated all related entities (authorities, commissions, and affiliates) for the possible inclusion in the financial reporting entity.

The component units discussed below are included in the City's reporting entity because of the significance of financial and operational relationships within the City. These component units have been included in the financial reporting entity as discretely presented component units.

### **ALLENTOWN REDEVELOPMENT AUTHORITY**

The Allentown Redevelopment Authority (the "Authority"), an entity legally separate from the City, is governed by a board appointed by the Mayor and administers the Community Development Block Grant Program and other urban renewal and improvement grants.

### **ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

Allentown Economic Development Corporation ("AEDC"), an entity legally separate from the City, is governed by a board that includes the Mayor and a City Council member. Its purpose is to encourage economic development in the City. AEDC provides technical and financial assistance to existing business and fosters the attraction of new commerce into the City. The City has guaranteed the installment debt of the AEDC.

### **ALLENTOWN PARKING AUTHORITY**

Allentown Parking Authority (The "Authority") is a municipal authority organized pursuant to the Parking Authority Act of 1947 of the Commonwealth of Pennsylvania. The Authority's function is to develop, administer and enforce an efficient system of off-street and on-street parking in the City. The Authority is governed by a board appointed by the Mayor. The City has guaranteed the debt issuance of the Authority.

### **CONDENSED FINANCIAL STATEMENTS**

Condensed financial statements are provided as supplemental information for each of the discretely presented component units mentioned above. Complete financial statements of the individual component units can be obtained directly from the Office of the City Treasurer.

City Of Allentown, Pennsylvania  
Notes To Financial Statements

CONDENSED FINANCIAL STATEMENTS  
DISCRETELY PRESENTED COMPONENT UNITS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2003

	ALLENTOWN REDEVELOPMENT AUTHORITY	ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION*	ALLENTOWN PARKING AUTHORITY	TOTALS
<b>ASSETS</b>				
Cash and cash equivalents	\$ 155,080	\$ 4,218,141	\$ 541,610	\$ 4,914,831
Investments			600,000	600,000
Accounts receivable, net	73,967	208,685	250,824	533,476
Due from other governments	61,120			61,120
Other assets		1,605,447	262,424	1,867,871
Capital assets, net		<u>14,284,563</u>	<u>13,313,750</u>	<u>27,598,313</u>
Total assets	<u>\$ 290,167</u>	<u>\$ 20,316,836</u>	<u>\$ 14,968,608</u>	<u>\$ 35,575,611</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 12,620	\$ 340,579	\$ 266,464	\$ 619,663
Long-term debt	48,106	3,578,557	9,149,266	12,775,929
Other liabilities	48,499	543,617	1,161,500	1,753,616
Total liabilities	<u>109,225</u>	<u>4,462,753</u>	<u>10,577,230</u>	<u>15,149,208</u>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt		10,706,006	3,242,457	13,948,463
Unrestricted	<u>180,942</u>	<u>5,148,077</u>	<u>1,148,921</u>	<u>6,477,940</u>
Total net assets	<u>180,942</u>	<u>15,854,083</u>	<u>4,391,378</u>	<u>20,426,403</u>
Total liabilities and net assets	<u>\$ 290,167</u>	<u>\$ 20,316,836</u>	<u>\$ 14,968,608</u>	<u>\$ 35,575,611</u>

\* Presented as of June 30, 2003

CONDENSED FINANCIAL STATEMENTS  
 DISCRETELY PRESENTED COMPONENT UNITS  
 STATEMENTS OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	ALLENTOWN REDEVELOPMENT AUTHORITY	ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION	ALLENTOWN PARKING AUTHORITY	TOTAL
Program revenues:				
Charges for services		\$ 1,319,037	\$4,031,354	\$ 5,350,391
Grants	\$477,106	423,106	427,178	1,327,390
Investment income	807	90,786	26,517	118,110
Other income	<u>48,804</u>	<u>                    </u>	<u>12,655</u>	<u>61,459</u>
Total program revenues	<u>526,717</u>	<u>1,832,929</u>	<u>4,497,704</u>	<u>6,857,350</u>
Expenses:				
Operating and other expenses	485,284	1,139,931	2,301,770	3,926,985
Depreciation and amortization		322,955	644,968	967,923
Interest expense		647,247	526,359	1,173,606
Loss on disposal of assets		444,029	2,650	446,679
Contribution to City of Allentown	<u>                    </u>	<u>                    </u>	<u>211,950</u>	<u>211,950</u>
Total expenses	<u>485,284</u>	<u>2,554,162</u>	<u>3,687,697</u>	<u>6,727,143</u>
Net income	41,433	(721,233)	810,007	130,207
Net assets, beginning of year	<u>139,509</u>	<u>16,575,316</u>	<u>3,581,371</u>	<u>20,296,196</u>
Net assets, end of year	<u>\$180,942</u>	<u>\$15,854,083</u>	<u>\$4,391,378</u>	<u>\$20,426,403</u>

### **3. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

The City is authorized to make investments as defined in the Pennsylvania Third Class City Code and the Home Rule Charter. Authorized types of investments include the following:

- a. United States Treasury bills.
- b. Short-term obligations of the U.S. Government or its agencies or instrumentalities.
- c. Deposits in savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Corporation or similar agencies to the extent that such accounts are so insured, and for any amounts above the insured maximum, provided that approved collateral as provided by law therefore is pledged by the depository.
- d. Obligations of the U.S. Government or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- e. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for City funds listed above.
- f. Certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or similar agencies to the extent that such accounts are so insured.

Investments of pension trust funds are placed pursuant to guidelines established by the respective pension boards. Investments of component units are transacted pursuant to guidelines established by the respective boards of directors.

Bank balances are categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes bank balances that are insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes bank balances that are uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name. All bank balances of the City are considered to be either Category 1 or Category 3.

At December 31, 2003, the carrying amount of the City's bank deposits was \$1,563,366 and the corresponding bank balances were \$14,345,141 of which \$257,536 (Category 1) was covered by federal depository insurance. The City's change fund and petty cash balances were \$11,950 at December 31, 2003.

At December 31, 2003, the carrying amount of the discretely presented component units' bank deposits was \$4,914,831 and the corresponding bank balances were \$4,130,514, of which \$2,908,345 (Category 1) was covered by Federal Depository Insurance.

Under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits. The uninsured deposits (as defined by Statement No. 3 of the Governmental Accounting Standards Board) of the City in the amount of \$14,075,655 (Category 3) were collateralized by this pool of assets maintained by the City's depository institutions and \$1,222,169 of the discretely presented component units' bank deposits was uninsured.

CITY OF ALLENTOWN, PENNSYLVANIA  
 NOTES TO FINANCIAL STATEMENTS

At December 31, 2003, the City's cash equivalents balances were as follows:

	.....CATEGORY.....			<u>TOTAL</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Government agencies			\$14,576,328	\$ 14,576,328
Corporate bonds			110,219	110,219
Mortgage backed securities			1,359,361	1,359,361
Other fixed income			<u>1,004,950</u>	<u>1,004,950</u>
			<u>\$17,050,858</u>	<u>\$ 17,050,858</u>

At December 31, 2003, the City's investment balances were as follows:

Pension trust funds:			
U.S. Government obligations		\$ 12,468,947	
Corporate bonds		6,215,609	
Equity investments		75,546,108	
Collateralized mortgage		1,558,405	
Other fixed income		23,728,592	
Asset backed securities		<u>6,024,723</u>	
		<u>\$125,542,384</u>	<u>\$125,542,384</u>

At December 31, 2003, the investment balances of the discretely presented component units were as follows:

<u>INVESTMENT TYPE</u>	.....CATEGORY.....			<u>TOTAL</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Government obligations	<u>\$600,000</u>			<u>\$600,000</u>

Investments are categorized into these three categories of credit risk:

Category	Description
1	Insured or registered, or securities held by the City or its agent in the City's name.
2	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
3	Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

**4. CAPITAL ASSETS**

Activity in the Capital Assets for the year ended December 31, 2003 is as follows:

	January 1, <u>2003</u>	<u>Additions</u>	<u>Disposals</u>	December 31, <u>2003</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 8,103,228	\$ -	\$ -	\$ 8,103,228
Property held for development	1,403,969	64,252	196,733	1,271,488
Construction in progress	<u>200,363</u>	<u>1,443,155</u>	<u>-</u>	<u>1,643,518</u>
Total capital assets not being depreciated	<u>9,707,560</u>	<u>1,507,407</u>	<u>196,733</u>	<u>11,018,234</u>
Capital assets being depreciated:				
Buildings	21,172,608	55,900	\$ 12,400	21,216,108
Land and building improvements	15,235,312	603,639	-	15,838,951
Machinery and equipment	14,678,359	1,068,244	81,189	15,665,414
Vehicles	12,720,366	2,415,657	1,618,523	13,517,500
Art	95,166	-	-	95,166
Infrastructure	<u>60,089,123</u>	<u>947,776</u>	<u>-</u>	<u>61,036,899</u>
Total capital assets being depreciated	<u>123,990,934</u>	<u>5,091,216</u>	<u>1,712,112</u>	<u>127,370,038</u>
Less accumulated depreciation for:				
Buildings	12,386,228	520,277	12,400	12,894,105
Land and building improvements	6,690,543	744,584	-	7,435,127
Machinery and equipment	9,597,662	819,154	80,943	10,335,873
Vehicles	7,810,260	1,598,668	520,187	8,888,741
Infrastructure	<u>20,438,870</u>	<u>1,231,199</u>	<u>-</u>	<u>21,670,069</u>
Total accumulated depreciation	<u>56,923,563</u>	<u>4,913,882</u>	<u>613,530</u>	<u>61,223,915</u>
Total capital assets being depreciated, net	<u>67,067,371</u>	<u>177,334</u>	<u>1,098,582</u>	<u>66,146,123</u>
Governmental activities capital assets, net	<u>\$76,774,931</u>	<u>\$1,684,741</u>	<u>\$1,295,315</u>	<u>\$77,164,357</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

	January 1, <u>2003</u>	<u>Additions</u>	<u>Disposals</u>	December 31, <u>2003</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Construction in progress	\$ <u>682,129</u>	\$ <u>697,134</u>	\$ <u>664,507</u>	\$ <u>714,756</u>
Total capital assets not being depreciated	<u>682,129</u>	<u>697,134</u>	<u>664,507</u>	<u>714,756</u>
Capital assets being depreciated:				
Land	3,759,048	-	-	3,759,048
Buildings	40,643,275	734,533	-	41,377,808
Land and building improvements	20,488,140	234,236	-	20,722,376
Machinery and equipment	29,566,757	538,919	160,743	29,944,933
Vehicles	6,014,981	905,326	417,962	6,502,345
Distribution and collection systems	<u>49,046,338</u>	<u>535,806</u>	<u>19,640</u>	<u>49,562,504</u>
Total capital assets being depreciated	<u>149,518,539</u>	<u>2,948,820</u>	<u>598,345</u>	<u>151,869,014</u>
Less accumulated depreciation for,				
Buildings	15,795,039	1,144,809	-	16,939,848
Land and building improvements	3,823,455	774,439	-	4,597,894
Machinery and equipment	15,905,241	1,252,170	85,528	17,071,883
Vehicles	3,650,908	954,885	292,856	4,312,937
Distribution and collection systems	<u>10,577,780</u>	<u>512,707</u>	<u>16,572</u>	<u>11,073,915</u>
Total accumulated depreciation	<u>49,752,423</u>	<u>4,639,010</u>	<u>394,956</u>	<u>53,996,477</u>
Total capital assets being depreciated, net	<u>99,766,116</u>	<u>(1,690,190)</u>	<u>203,389</u>	<u>97,872,537</u>
Business-type activity capital assets, net	<u>\$100,448,245</u>	<u>\$ (993,056)</u>	<u>\$867,896</u>	<u>\$ 98,587,293</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
 NOTES TO FINANCIAL STATEMENTS

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Depreciation expense was charged to governmental activities as follows:

General government	\$ 290,023
Public safety	1,451,568
Public works	2,388,889
Health	63,057
Parks and recreation	637,399
Community development and planning	<u>82,946</u>
Total	<u>\$4,913,882</u>

**5. INTERFUND RECEIVABLE AND PAYABLE BALANCES**

The composition of interfund balances as of December 31, 2003 is as follows:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
Governmental activities:		
General Fund	\$426,643	\$ 172,532
Community Development Block		
Grant Fund	11,696	427,347
Pennsylvania Motor	24,271	-
Capital projects	3,272,403	1,662,604
Business type activities:		
Water Fund	39,338	1,965,869
Sewer Fund	1,682,599	-
Golf Fund	-	94,596
Internal Service Fund	<u>-</u>	<u>1,134,002</u>
Total	<u>\$5,456,950</u>	<u>\$5,456,950</u>

**6. INDIVIDUAL FUND INTERFUND TRANSFERS**

The composition of interfund balances as of December 31, 2003 is as follows:

	Transfers <u>In</u>	Transfers <u>Out</u>
Governmental activities;		
General Fund	\$ 4,917,858	\$11,584,343
Debt Service Fund	10,021,040	-
Risk Management Fund	-	43,181
Capital projects	150,000	-
Business type activities:		
Water Fund	-	1,545,679
Sewer Fund	-	1,239,422
Solid Waste Fund	-	431,677
Golf Fund	-	<u>244,596</u>
Total	<u>\$15,088,898</u>	<u>\$15,088,898</u>

Transfers out were made from the General Fund to the Debt Service Fund (\$9,926,444) for debt payments.

Transfers In were made to the General Fund for reimbursement of services rendered by the General Fund for other operating funds, i.e. Water, Sewer, Trexler, Risk, Solid Waste, and Golf Funds. These General City Charges totaled \$3,434,959.

**CAPITAL FUND**

A \$150,000 transfer was made to the Capital Project from the Trexler Park Fund. This transfer represents a portion of the Trexler Grant earmarked to enhance the park system through capital improvements.

**GOLF FUND**

A transfer out in the Golf Fund to the Debt Service Fund in the amount of \$94,596 represents Golf's Debt Service Payment.

**7. PENSION PLANS**

**PLAN DESCRIPTIONS**

The City has three single employer defined benefit pension plans covering Policemen, Firemen, and certain non-uniformed employees (Officers and Employees Plan). The plans provide for retirement, disability, vested and death benefits to plan members and their beneficiaries. Cost of living adjustments are provided at the discretion of the Police, Firemen and Officers and Employees Retirement Boards. All full-time City employees hired prior to June 9, 1976 are eligible to participate in these plans. The City also participates in a pension plan administered by the Pennsylvania Municipal Retirement System (PMRS). The full-time non-uniformed City employees hired after June 8, 1976 are eligible to participate in the PMRS plan. PMRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR) which may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968. The following is a statement of fiduciary net assets and statement of changes in fiduciary net assets for the City's three single employer defined benefit plans.

	<u>Officers and Employees' Pension Fund</u>	<u>Policemen's Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Total Pension Trust Funds</u>
<u>ASSETS</u>				
INTEREST RECEIVABLE	\$ 88,991	\$ 155,458	\$ 124,942	\$ 369,391
INVESTMENTS, At fair value	<u>29,428,584</u>	<u>56,632,807</u>	<u>39,480,993</u>	<u>125,542,384</u>
TOTAL	<u>\$29,517,575</u>	<u>\$56,788,265</u>	<u>\$39,605,935</u>	<u>\$125,911,775</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES:				
Accounts payable	\$1,426,971			\$ 1,426,971
Due to other governments	<u>1,517,758</u>			<u>1,517,758</u>
Total liabilities	2,944,729			2,944,729
NET ASSETS,				
Reserved for pension benefits	<u>26,572,846</u>	<u>\$56,788,265</u>	<u>\$39,605,935</u>	<u>122,967,046</u>
TOTAL	<u>\$29,517,575</u>	<u>\$56,788,265</u>	<u>\$39,605,935</u>	<u>\$125,911,775</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
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	<u>Officers and Employees' Pension Fund</u>	<u>Policemen's Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Total Pension Trust Funds</u>
ADDITIONS:				
Contributions:				
Employer		\$ 1,244,249	\$ 419,298	\$ 1,663,547
Plan members	<u>\$ 25,628</u>	<u>1,016,010</u>	<u>557,413</u>	<u>1,599,051</u>
Total contributions	<u>25,628</u>	<u>2,260,259</u>	<u>976,711</u>	<u>3,262,598</u>
Investment earnings:				
Net appreciation in fair value of investments	3,067,984	5,649,824	3,994,648	12,712,456
Interest and dividends	1,038,933	1,879,359	1,363,272	4,281,564
Less investment expenses	<u>(122,887)</u>	<u>(204,832)</u>	<u>(155,268)</u>	<u>(482,987)</u>
Net investment earnings	<u>3,984,030</u>	<u>7,324,351</u>	<u>5,202,652</u>	<u>16,511,033</u>
Other income:				
Miscellaneous	<u>63,196</u>	<u>76,900</u>	<u>78,407</u>	<u>218,503</u>
Total other income	<u>63,196</u>	<u>76,900</u>	<u>78,407</u>	<u>218,503</u>
Total additions	<u>4,072,854</u>	<u>9,661,510</u>	<u>6,257,770</u>	<u>19,992,134</u>
DEDUCTIONS:				
Benefits paid to recipients	3,457,533	4,246,366	3,294,445	10,998,344
Administrative and other fees	<u>150,408</u>	<u>13,438</u>	<u>11,628</u>	<u>175,474</u>
Total deductions	<u>3,607,941</u>	<u>4,259,804</u>	<u>3,306,073</u>	<u>11,173,818</u>
CHANGE IN NET ASSETS	464,913	5,401,706	2,951,697	8,818,316
NET ASSETS, BEGINNING	<u>26,107,933</u>	<u>51,386,559</u>	<u>36,654,238</u>	<u>114,148,730</u>
NET ASSETS, ENDING	<u>\$26,572,846</u>	<u>\$56,788,265</u>	<u>\$39,605,935</u>	<u>\$122,967,046</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
 NOTES TO FINANCIAL STATEMENTS

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The following table provides information concerning types of covered employees and benefit provision for each of the Plans. Benefit provisions and their amendments are authorized by the separate Pension Boards for the Policemen, Firemen and Officers and Employees plans and by Pennsylvania State Act 15 for the PMRS plan:

	Policemen	Firemen	Officers and Employees	PMRS
<u>Covered Employees</u>	All full-time members of the Police Force	All full-time members of the Fire Department	Closed 6/8/76	All full-time employees not previously covered
Number of active plan members	255	169	12	538
Number of retirees and beneficiaries receiving benefits	189	158	285	105
Terminated employees entitled to deferred benefits	-	-	-	24

**CONTRIBUTIONS**

Pennsylvania Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act of the Commonwealth of Pennsylvania (as amended) (Act 205) requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the plans' biannually actuarial valuation. According to Act 205, actuarial valuations may be made biennial and the most recent valuation for all of the City's plans was completed as of January 2003. The MMO includes the normal cost, estimated administrative expenses and an amortization of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10 percent of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirements established by the MMO which exceeds state and member contributions must be funded by the employer.

CITY OF ALLENTOWN, PENNSYLVANIA  
 NOTES TO FINANCIAL STATEMENTS

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Policemen and Firemen are required to contribute 8% of covered payroll to their respective pension plans. The Officers' and Employees' plan requires 3.5% of covered payroll for single coverage. The PMRS plan requires contributions of 7½% from plan participants. These contributions are governed by the Plans' governing ordinances and collective bargaining agreements. Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plans and funded through the MMO and/or investment earnings.

Annual Pension Cost and Net Pension Asset – The City's annual pension cost (APC), and net pension asset for the City's Policemen, Firemen and Officers and Employees Defined Benefit Pension Plans for the current year were as follows:

	<u>Policemen</u>	<u>Firemen</u>	<u>Officers and Employees</u>
Annual Required Contribution (MMO)	\$1,244,249	\$ 419,298	
Interest on net pension asset	(14,891)	(9,428)	\$(2,780)
Adjustment to annual required contribution	<u>18,614</u>	<u>11,785</u>	<u>3,475</u>
Annual Pension Cost	1,247,972	421,655	695
Contributions made	<u>(1,244,249)</u>	<u>(419,298)</u>	<u>-</u>
Decrease in net pension asset	3,723	2,357	695
Net pension asset, beginning of year	<u>(186,139)</u>	<u>(117,846)</u>	<u>(34,746)</u>
Net pension asset, end of year	<u>\$ (182,416)</u>	<u>\$ (115,489)</u>	<u>\$ (34,051)</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
 NOTES TO FINANCIAL STATEMENTS

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.....Three Year Trend Information.....

	<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
Policemen	12/31/01	931,354	100%	189,938
	12/31/02	1,197,583	99.7%	186,139
	12/31/03	1,247,972	99.7%	182,416
Firemen	12/31/01	2,455	100%	120,251
	12/31/02	190,323	98.7%	117,846
	12/31/03	421,655	99.4%	115,489
Officers and Employees	12/31/01	724	100%	35,456
	12/31/02	710	100%	34,746
	12/31/03	695	100%	34,051
Pennsylvania Municipal Retirement Plan	12/31/01	1,184,416	100%	-
	12/31/02	1,196,266	100%	-
	12/31/03	1,271,102	100%	-

The annual required contribution for each of the Plans for the current year were determined as part of the January 1, 2003 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) investment rate of return of 8% for the three City Plans and 6.5% for the State (PMRS) Plan (b) projected salary increases of 5% per year for City Plans and 5.2% for PMRS plan including, an inflation component of 3.5%, for the PMRS Plan. The actuarial value of assets was based on market value plus end of the year accrual adjustments, if any. The PMRS Plan's unfunded actuarial accrued liability was fully funded at January 1, 2003.

**INVESTMENTS THAT REPRESENT FIVE PERCENT OR MORE OF PLAN NET ASSETS**

At December 31, 2003, none of the Plans had investments in any one organization which represented five percent or more of the Plan net assets.

## 8. LONG-TERM DEBT

The City issues notes payable and general obligation bonds to finance the capital projects of the City. At December 31, 2003, general long-term debt obligations of the City's governmental activities were as follows:

General Obligation Notes and Bonds	Balance Outstanding January 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2003</u>
Notes payable:				
HUD 108 Series 1991-A term notes, 8.77% interest, due 2003 with semiannual interest payments	\$ 65,000		\$ 65,000	\$ -
HUD 108 Series 1997-A term notes, 4.50%-6.70% interest, due 2004 to 2007 with semiannual interest payments	<u>2,150,000</u>		<u>350,000</u>	<u>1,800,000</u>
	<u>2,215,000</u>		<u>415,000</u>	<u>1,800,000</u>
Bonds payable:				
1993 General Obligation Bonds, 5.70% interest, due in 2010	325,000			325,000
1993 General Obligation Refunding Bonds 5.65% interest, due in 2010	7,320,000		5,795,000	1,525,000
1995 General Obligation Refunding Bonds, 4.85% to 5.50% interest, serial portion payable in varying annual installments of \$600,000 in 2004 to \$280,000 in 2014	4,310,000		575,000	3,735,000
1996 General Obligation Bonds 6.20% to 6.45% interest, payable in increasing annual installments of \$1,985,000 in 2004 to \$3,360,000 in 2009 with term portion of \$14,430,000 due in 2014	32,385,000		1,575,000	30,810,000



CITY OF ALLENTOWN, PENNSYLVANIA  
 NOTES TO FINANCIAL STATEMENTS

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At December 31, 2003, the business-type activities' long-term debt consisted of the following:

Revenue Notes And Bonds	Balance Outstanding January 1, 2003	Additions	Reductions	Balance Outstanding December 31, 2003
Notes payable, 1989 Guaranteed Water Revenue Note due in 2005 with monthly installments of \$13,275 including interest of 4.93%	\$ 408,932		\$ 142,351	\$ 266,581
Bonds payable:				
1993 Guaranteed Water Revenue Bonds, 5.65% interest, due in 2010	775,000			775,000
1993 Guaranteed Water Revenue Refunding Bonds, 5.65% interest, one installment of \$330,000 in 2010	2,035,000		1,705,000	330,000
1993 Guaranteed Sewer Revenue Bonds, 5.65% interest, due in 2010	645,000			645,000
1993 Guaranteed Sewer Revenue Refunding Bonds, paid during 2003	370,000		370,000	-
1995 Guaranteed Water Revenue Refunding Bonds, 4.75% to 5.50% interest, serial portion payable in increasing annual installments of \$460,000 in 2004 to \$425,000 in 2014	4,740,000		440,000	4,300,000

CITY OF ALLENTOWN, PENNSYLVANIA  
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Revenue Notes And Bonds	Balance Outstanding January 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2003</u>
1997 Guaranteed Water Revenue Bonds, Second Series, 4.45% to 5.00% interest, serial portion payable in increasing annual installments of \$155,000 in 2004 to \$200,000 in 2012	\$ 3,065,000		\$ 145,000	\$ 2,920,000
1997 Guaranteed Water Revenue Refunding Bonds, 4.45% to 4.55% interest, serial portion payable in increasing annual installments of \$20,000 in 2004 to \$1,335,000 in 2005	3,945,000		1,265,000	2,680,000
1997 Guaranteed Sewer Revenue Refunding Bonds, 4.45% to 4.55% interest, serial portion payable in increasing annual installment of \$365,000 in 2004 to \$375,000 in 2005	1,090,000		350,000	740,000
1997 Guaranteed Sewer Revenue Refunding Bonds, Second Series, 4.45% to 5.00% interest, serial portion payable in increasing annual installments of \$55,000 in 2004 to \$80,000 in 2012	640,000		55,000	585,000
1998 Guaranteed Water Revenue Bonds, 4.00% to 5.00% interest, serial portion payable in varying annual installments of \$430,000 in 2004 to \$30,000 in 2018	5,570,000		420,000	5,150,000

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Revenue Notes And Bonds	Balance Outstanding January 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2003</u>
1998 Guaranteed Sewer Revenue Bonds, 4.00% to 5.00% interest, serial portion payable in varying annual installments of \$970,000 in 2004 to \$485,000 in 2018	\$10,215,000		\$ 935,000	\$9,280,000
1999 Guaranteed Sewer Revenue Bonds, 4.50% interest, payable in two annual installments of \$95,000 in 2004 and \$90,000 in 2005	2,200,000		2,015,000	185,000
1999 Guaranteed Water Revenue Bonds, 4.45% to 4.90% interest, serial portion payable in increasing annual installments of \$55,000 in 2004 to \$65,000 in 2009	1,275,000		930,000	345,000
2000 Guaranteed Water Revenue Bonds, 4.50% to 5.55% interest, serial portion payable in increasing annual installments of \$45,000 in 2004 to \$105,000 in 2020	1,245,000		45,000	1,200,000
2000 Guaranteed Sewer Revenue Bonds, paid during 2003	3,060,000		3,060,000	-
2001 Guaranteed Water Revenue Bonds, 2.80% to 5.00% interest, serial portion payable in increasing annual installments of \$1,225,000 in 2004 to \$110,000 in 2021	15,585,000		1,200,000	14,385,000

CITY OF ALLENTOWN, PENNSYLVANIA  
 NOTES TO FINANCIAL STATEMENTS

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Revenue Notes And Bonds	Balance Outstanding January 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2003</u>
2001 Guaranteed Sewer Revenue Bonds, 2.80% to 5.00% interest, serial portion payable in increasing annual installments of \$70,000 in 2004 to \$135,000 in 2021	\$ 1,780,000		\$ 65,000	\$ 1,715,000
2003 Guaranteed Water Revenue Refunding Bonds, 2.0% to 4.375% interest, serial portion payable in increasing annual installments of \$340,000 in 2004 to \$110,000 in 2019	-	\$2,705,000	225,000	2,480,000
2003 Guaranteed Sewer Revenue Refunding Bonds, 2.0% to 4.4% interest, serial portion payable in increasing annual installments of \$235,000 in 2004 to \$255,000 in 2020	-	<u>5,820,000</u>	<u>140,000</u>	<u>5,680,000</u>
Total	<u>\$58,643,932</u>	<u>\$8,525,000</u>	<u>\$13,507,351</u>	<u>\$53,661,581</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
 NOTES TO FINANCIAL STATEMENTS

Debt service requirements to maturity, including interest of \$44,640,358, are as follows:

<u>Year Ending</u>	<u>Business Type Activities</u>	<u>Governmental Activities</u>	<u>Total</u>
2004	\$ 8,325,412	\$ 11,190,283	\$ 19,515,695
2005	8,340,248	11,599,453	19,939,701
2006	7,712,815	11,274,533	18,987,348
2007	5,541,438	11,819,135	17,360,573
2008	5,197,628	10,098,768	15,296,396
2009-2013	21,362,280	37,116,670	58,478,950
2014-2018	11,051,623	14,708,090	25,759,713
2019-2022	<u>1,876,118</u>	<u>4,812,445</u>	<u>6,688,563</u>
	<u>\$69,407,562</u>	<u>\$112,619,377</u>	<u>\$182,026,939</u>

During 2003, the City issued general obligation bonds of \$8,225,000 with variable interest rates ranging from 2.0% to 5.5% to advance refund portions of the outstanding principal amounts of its General Obligation Bonds Series of 1999 and 1993. On the date of issuance, the City deposited a portion of the 2003 proceeds in escrow to purchase U.S. government securities to effect the advance refunding of the portions of the 1999 and 1993 bonds. As a result of the above transaction, portions of the 1999 and 1993 bonds are considered to be defeased in the amount of \$8,535,000 and the liability for that debt has been removed from the statement of net assets. This advance refunding decreased the City's total debt service payments over the next nineteen years by approximately \$1,496,000 and provided an economic gain (difference between the present value of the debt service payment on the old and new debt) of approximately \$541,000.

During 2003, the City issued guaranteed water revenue bonds of \$2,705,000 and guaranteed sewer revenue bonds of \$5,820,000 with variable interest rates ranging from 2.0% to 4.4% to advance refund portions of the outstanding principal amounts of its Guaranteed Water Bonds Series 1993 and 1999 and Guaranteed Sewer Bonds Series 1993, 1999 and 2000. On the date of issuance, the City deposited a portion of the 2003 proceeds in escrow to purchase U.S. government securities to effect the advance refunding of the portions of 1993, 1999 and 2000 bonds. As a result of the above transaction, portions of the Water Revenue and Sewer Revenue bonds are considered to be defeased in the amount of \$2,585,000 and \$5,360,000, respectively and the liability has been removed from the statement of net assets. This advance refunding increased the City's total debt service payments and provided an economic gain of approximately \$162,000 for the Water fund and an economic gain of \$228,000 over the next five to sixteen years by approximately \$500,000 for the sewer fund.

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

The following represents changes in long-term liabilities, other than bond and note issues:

	Balance January 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2003</u>
Accrued vacation	\$ 808,569	\$ 705,451		\$1,514,020
Capital leases				
Governmental activities	1,336,689	559,778	\$219,786	1,676,681
Business-type activities	<u>202,870</u>	<u>253,086</u>	<u>67,141</u>	<u>388,815</u>
Total capital leases	1,539,559	812,864	286,927	2,065,496
Total	<u>\$2,348,128</u>	<u>\$1,518,315</u>	<u>\$286,927</u>	<u>\$3,579,516</u>

Debt service requirements for capital lease obligations are as follows:

<u>Year Ending</u>	<u>Business Type Activities</u>	<u>Governmental Activities</u>	<u>Total</u>
2004	\$154,346	\$ 358,083	\$ 512,429
2005	154,346	358,083	512,429
2006	41,122	239,564	280,686
2007	41,122	216,873	257,995
2008	41,122	216,873	257,995
Thereafter	<u>-</u>	<u>536,399</u>	<u>536,399</u>
	432,058	1,925,875	2,357,933
Less interest	<u>43,243</u>	<u>249,194</u>	<u>292,437</u>
	<u>\$388,815</u>	<u>\$1,676,681</u>	<u>\$2,065,496</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

**DISCRETELY PRESENTED COMPONENT UNITS' LONG-TERM DEBT:**

At the December 31, 2003, the long-term debt of the discretely presented component units consisted of the following:

	Balance Outstanding January 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2003</u>
Vehicle note due December 2004 with monthly installments of \$729, including interest at 5.50%	\$ 16,511		\$ 16,511	
Vehicle note due April 2005 with monthly installments of \$326, including interest at 5.60%	8,532		8,532	
1993 Guaranteed Parking Revenue Refunding Bonds, 4.20% to 5.05% interest, serial portion payable in increasing annual installments of \$170,000 in 2003 to \$220,000 in 2009	3,225,000		3,225,000	
1999 Guaranteed Parking Revenue Refunding Bonds, 4.10% to 5.00% interest, serial portion payable in increasing annual installments of \$540,000 in 2003 to \$715,000 in 2012	5,985,000		540,000	\$5,445,000
1999 Parking Revenue Bond, Series B, payable in monthly payments of \$19,881 including interest at 5.75%, due in 2009	1,358,868		1,358,868	-
2003 Parking Revenue Bonds, 2.0% to 3.9% interest, serial portion payable in increasing annual installments of \$375,000 in 2004 to \$355,000 in 2016		\$ 4,970,000	-	4,970,000

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

	Balance Outstanding January 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2003</u>
Mortgage payable to Ben Franklin Partnership Fund, secured by land and building; subordinated installment debt of Allentown Economic Development Corporation with monthly installments of \$2,518 including interest at 5.50%, due in 2008	\$ 155,932		\$ 155,932	
Mortgage payable to Pennsylvania Industrial Development Authority, secured by second-lien mortgage on land and buildings of Industrial Center Project, payable in monthly installments of \$2,740 including principal and interest at 3.00% through November 2010	244,308		25,906	\$ 218,402
Mortgage payable to Pennsylvania Industrial Development Authority, secured by participating first mortgage on land and buildings of Industrial Center Project, payable in monthly installments of \$12,758 including principal and interest at 3.00% through November 2010	1,137,525		120,624	1,016,901
Mortgage payable to Pennsylvania Power and Light Company, secured by tract of land in Industrial Center Project, payable without interest in 120 monthly installments of \$2,084 through December 2005	87,448		25,008	62,440

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

	Balance Outstanding January 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2003</u>
Mortgage payable to a bank, secured by land and buildings of Industrial Center and Business Incubator and guaranteed by the City of Allentown, payable in 240 monthly installments of \$24,650 including principal and interest at 8.16% through July 2017; loan agreement required the establishment of certain escrow accounts subject to specified withdrawal restrictions; AEDC is also required to comply with certain continuing loan provisions	\$ 2,457,218		\$ 96,076	\$ 2,361,142
Mortgage payable to a bank, secured by land and buildings and guaranteed by the City of Allentown; interest at the London Interbank Offered Rate plus 1.75% (4.18% at June 30, 2002); payable interest only through April 2000, then 108 payments of principal and interest due in monthly installments of \$23,578, with all remaining interest and principal due at maturity in March 2009	<u>3,257,564</u>	_____	<u>3,257,564</u>	_____
Total long-term debt	17,933,906	4,970,000	8,830,021	14,073,885
Less unamortized deferred costs of refunding	<u>322,929</u>	<u>87,690</u>	<u>24,174</u>	<u>386,445</u>
	<u>\$17,610,977</u>	<u>\$4,882,310</u>	<u>\$8,805,847</u>	<u>\$13,687,440</u>

The City guarantees the obligations of the Allentown Parking Authority parking revenue bonds and the installment debt of AEDC.

Debt service requirements to maturity, including interest of \$6,592,853 are as follows for the Allentown Parking Authority and AEDC:

<u>Year Ending</u>	<u>Allentown Parking Authority</u>	<u>Allentown Economic Development Authority</u>	<u>Total</u>
2004	\$ 1,342,511	\$ 506,789	\$ 1,849,300
2005	1,340,452	506,789	1,847,241
2006	1,339,679	494,205	1,833,884
2007	1,337,118	481,780	1,818,898
2008	1,342,292	481,781	1,824,073
Thereafter	<u>6,180,395</u>	<u>2,845,500</u>	<u>9,025,895</u>
Total	<u>\$12,882,447</u>	<u>\$5,316,844</u>	<u>\$18,199,291</u>

**PRIOR YEAR DEFEASANCE OF DEBT**

In prior years, the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At December 31, 2003, \$27,725,000 of bonds outstanding are considered defeased.

**9. RISK MANAGEMENT, ACCRUED CLAIMS LIABILITY**

Changes in the accrued claims liability during the past two fiscal years are as follows:

	<u>2003</u>	<u>2002</u>
Accrued claims liability, January 1,	\$3,085,689	\$4,252,327
Incurred claims (including estimated claims incurred but not reported as of December 31):		
Provision for current year events	1,371,985	563,673
Payments	<u>(1,467,188)</u>	<u>(1,730,311)</u>
Accrued claims liability, December 31	<u>\$2,990,486</u>	<u>\$3,085,689</u>

The City uses an internal service fund to account for its risk financing activities. The fund accounts for the risk financing activities of the City, but does not constitute a transfer of risk from the City. The basis for reporting an estimated loss from a claim as an expenditure/expense and as a liability is if both the loss is probable and can be reasonably estimated.

## **10. OTHER POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 7, the City provides optional postemployment health care to retired employees, who are participants in one of the three City pension plans or the PMRS Plan and are age 55 to 65, and their dependents. Currently, 151 retirees plus their dependents meet those eligibility requirements. Such benefits are provided in accordance with various union contracts. The retirees contribute 25 percent of a predetermined annual charge for such health care benefits.

Expenditures for postemployment health care are recognized on a pay-as-you-go basis. During the year ended December 31, 2003, expenditures of approximately \$824,000 were recognized for such postemployment healthcare benefits.

## **11. COMMITMENTS AND CONTINGENCIES**

### **CONTINGENCIES**

#### **SUPPORT FROM GOVERNMENTAL UNITS**

#### **OTHER**

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2003, significant amounts of grant expenditures have not been audited by the grantor government, but the City believes that disallowed expenditures, if any, based on subsequent audits, will not have a material effect on the financial position of the City.

## **12. FUND DEFICIT**

The general fund has an accumulated deficit of \$1,351,217 and is the result of general fund expenditures in excess of revenues of \$4,863,586 in 2003. The internal service funds has an accumulated deficit of \$3,876,732 and is the result of health insurance and workers compensation costs in excess of amounts contributed by other funds. In 2004, the City plans to reduce the deficit by controlling expenditures, not filling vacant personnel positions and economic development in the City's downtown.

## **13. SUBSEQUENT EVENT**

In April 2004, the City issued bonds totaling \$69,170,000 for the following purposes: a \$36,865,000 Federally Taxable General Obligation Pension Refunding Bond, Series of 2004; \$21,935,000 Federally Taxable General Obligation Refunding Bonds, Series of 2004; \$6,900,000 Tax-Exempt General Obligation Bond, Series of 2004; \$3,075,000 Tax-Exempt Guaranteed Water Revenue Bond, Series of 2004; and a \$395,000 Tax-Exempt Guaranteed Sewer Revenue Bond, Series of 2004 for the purpose of financing certain capital projects of \$5,285,000 and for the advance refunding the City's General Obligations Bonds, Water Revenue Bonds, and Sewer Revenue Bonds for a total of \$62,454,555.

## **14. NEW ACCOUNTING PRONOUNCEMENT**

In May 2002, the Governmental Accounting Standards Board ("GASB") issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Statement No. 39 amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the City is not financial accountable should be reported as component units based on the nature and significance of their relationship with the City. The City is required to implement Statement No. 39 in its 2004 fiscal year. The City has not determined the effect of adopting this statement on its financial statements.

**CITY OF ALLENTOWN, PENNSYLVANIA**

**SCHEDULES OF FUNDING PROGRESS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2003**

Pennsylvania Municipal Retirement System Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a Percentage of Covered Payroll ((b-a)/c)
January 1, 1998	\$ 40,366,604	\$ 40,402,712	\$ 36,108	99.00 %	\$ 16,628,284	0.22 %
January 1, 1999	48,608,924	47,747,224	(861,700)	101.80 %	17,769,722	(4.85) %
January 1, 2000	57,645,876	56,805,996	(839,880)	101.48 %	16,168,829	(5.19) %
January 1, 2001	67,360,712	59,043,584	(8,317,128)	114.09 %	18,749,436	(44.36) %
January 1, 2002	73,084,104	64,146,120	(8,937,984)	113.93 %	19,239,748	(46.46) %
January 1, 2003	79,340,400	69,586,042	(9,754,358)	114.02 %	21,112,606	(46.20) %

City Plans:

Officers and Employees Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a Percentage of Covered Payroll ((b-a)/c)
January 1, 1998	\$ 40,693,608	\$ 32,430,239	\$ (8,263,369)	125.48 %	\$ 1,045,176	(790.62) %
January 1, 1999	40,439,309	32,638,415	(7,800,894)	123.90 %	989,949	(788.01) %
January 1, 2000	39,890,607	32,173,842	(7,716,765)	123.98 %	927,282	(832.19) %
January 1, 2001	37,574,288	33,554,083	(4,020,205)	111.98 %	595,344	(675.27) %
January 1, 2002	36,402,916	31,835,405	(4,567,511)	114.35 %	472,548	(966.57) %
January 1, 2003	31,333,904	30,797,310	(536,594)	101.74 %	470,781	(113.98) %

See Notes to Financial Statements

**CITY OF ALLENTOWN, PENNSYLVANIA**

**SCHEDULES OF FUNDING PROGRESS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2003**

Policemen's Pension Fund Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	OALL/(UAAL) As a Percentage of Covered Payroll ((b-a)/c)
January 1, 1998	\$57,212,307	\$52,715,904	\$ (4,496,403)	108.53 %	\$8,462,248	(53.13) %
January 1, 1999	60,553,563	57,567,560	(2,986,003)	105.19 %	9,113,346	(32.77) %
January 1, 2000	61,818,971	59,902,388	(1,916,583)	103.19 %	9,696,816	(19.76) %
January 1, 2001	63,396,650	63,468,506	71,856	99.88 %	9,952,257	0.72 %
January 1, 2002	65,730,802	66,294,526	563,724	99.15 %	9,899,590	5.69 %
January 1, 2003	61,509,524	73,777,267	12,267,743	83.37 %	11,245,540	1.09 %

Firemen's Pension Fund Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	OALL/(UAAL) As a Percentage of Covered Payroll ((b-a)/c)
January 1, 1998	\$45,039,101	\$38,444,560	\$ (6,594,541)	117.15 %	\$5,679,515	(116.11) %
January 1, 1999	45,628,564	40,815,897	(4,812,667)	111.79 %	6,179,447	(77.88) %
January 1, 2000	47,350,722	40,324,911	(7,025,811)	117.42 %	6,436,701	(109.15) %
January 1, 2001	47,590,139	43,478,153	(4,111,986)	109.46 %	6,460,681	(63.64) %
January 1, 2002	48,132,346	45,736,813	(2,395,533)	105.24 %	6,416,622	(37.33) %
January 1, 2003	44,135,042	47,822,940	3,687,898	92.29 %	7,227,193	(51.03) %

See Notes to Financial Statements

**CITY OF ALLENTOWN, PENNSYLVANIA**

**SCHEDULES OF EMPLOYER'S CONTRIBUTIONS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2003**

Year Ended	City of Allentown Plans						Pennsylvania Municipal Retirement System		
	Officers and Employees		Policemen		Firemen		Annual		
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Percentage Contribution
December 31, 1998	\$ -	N/A	\$ 727,729	100 %	\$ 236,523	100 %	\$ 948,264	100 %	100 %
December 31, 1999	-	N/A	442,677	100 %	-	N/A %	948,264	100 %	100 %
December 31, 2000	-	N/A	791,507	100 %	30,181	100 %	899,913	100 %	100 %
December 31, 2001	-	N/A	927,478	100 %	-	N/A %	1,184,416	100 %	100 %
December 31, 2002	-	N/A	1,193,784	100 %	187,918	100 %	1,196,266	100 %	100 %
December 31, 2003	-	N/A	1,244,249	100 %	419,298	100 %	1,271,102	100 %	100 %

See Notes to Financial Statements

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**CITY OF ALLENTOWN, PENNSYLVANIA**

**COMPONENT UNITS  
COMBINING STATEMENT OF NET ASSETS  
DECEMBER 31, 2003**

	Allentown Redevelopment Authority	AEDC
<u>ASSETS</u>		
Cash and cash equivalents	\$ 155,080	\$ 4,218,141
Investments		
Accounts receivable, net	73,967	208,685
Due from other governments	61,120	
Other current assets		168,910
	<u>290,167</u>	<u>4,595,736</u>
CAPITAL ASSETS		
Land		419,600
Buildings		7,607,163
Land and building improvements		
machinery and equipment		112,873
Vehicles		
Construction in progress		<u>8,309,626</u>
Capital assets		16,449,262
Accumulated depreciation		<u>2,164,699</u>
Capital assets, net		<u>14,284,563</u>
OTHER ASSETS		<u>1,436,537</u>
	<u>\$ 290,167</u>	<u>\$ 20,316,836</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 12,620	\$ 340,579
Current portion of long-term liabilities		280,328
Current portion of capital leases		
Other liabilities	<u>48,499</u>	<u>263,289</u>
Total current liabilities	<u>61,119</u>	<u>884,196</u>
LONG-TERM LIABILITIES:		
Deferred revenue	48,106	200,000
Capital leases		
Bonds payable		<u>3,378,557</u>
Total long-term liabilities	<u>48,106</u>	<u>3,578,557</u>
Total liabilities	<u>109,225</u>	<u>4,462,753</u>
NET ASSETS:		
Invested in capital assets net of related debt		10,706,006
Unrestricted	<u>180,942</u>	<u>5,148,077</u>
Total fund equity	<u>180,942</u>	<u>15,854,083</u>
TOTAL	<u>\$ 290,167</u>	<u>\$ 20,316,836</u>

See Notes to Financial Statements

Allentown Parking Authority	Totals
\$ 541,610	\$ 4,914,831
600,000	600,000
250,824	533,476
115,082	61,120
<u>1,507,516</u>	<u>283,992</u>
	<u>6,393,419</u>
4,651,586	5,071,186
10,215,478	17,822,641
2,002,283	2,002,283
1,027,746	112,873
126,072	1,027,746
<u>18,023,165</u>	<u>8,435,698</u>
	<u>34,472,427</u>
<u>4,709,415</u>	<u>6,874,114</u>
<u>13,313,750</u>	<u>27,598,313</u>
<u>147,342</u>	<u>1,583,879</u>
<u>\$ 14,968,608</u>	<u>\$ 35,575,611</u>
\$ 266,464	\$ 619,663
899,037	1,179,365
22,990	22,990
239,473	551,261
<u>1,427,964</u>	<u>2,373,279</u>
	248,106
19,748	19,748
<u>9,129,518</u>	<u>12,508,075</u>
<u>9,129,518</u>	<u>12,775,929</u>
<u>10,557,482</u>	<u>15,149,208</u>
3,242,457	13,948,463
1,148,921	6,477,940
<u>4,391,378</u>	<u>20,426,403</u>
<u>\$ 14,948,860</u>	<u>\$ 35,575,611</u>

**CITY OF ALLENTOWN, PENNSYLVANIA**

**COMPONENT UNITS  
COMBINING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Allentown Redevelopment Authority	AEDC
<b>PROGRAM REVENUES:</b>		
Charges for services		
Parking fees		
Rental Income		\$ 1,319,037
Operating grants		423,106
Intergovernmental revenue	<u>\$ 477,106</u>	
Total operating revenues	<u>477,106</u>	<u>1,742,143</u>
<b>EXPENSES:</b>		
Personnel services		483,380
Utility services		164,055
Contracted services		132,907
Materials and supplies		185,708
Depreciation and amortization		322,955
Community development and planning	<u>485,284</u>	
Total expenses	<u>485,284</u>	<u>1,289,005</u>
<b>NET OPERATING (EXPENSE) REVENUE</b>	<u>(8,178)</u>	<u>453,138</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Contribution to City of Allentown		
Investment income	807	90,786
Interest expense		(647,247)
Loss on disposal of assets		(444,029)
Capital contribution		
Miscellaneous	<u>48,804</u>	<u>(173,881)</u>
Total nonoperating revenue (expense)	<u>49,611</u>	<u>(1,174,371)</u>
<b>NET CHANGE IN NET ASSETS</b>	41,433	(721,233)
<b>NET ASSETS, BEGINNING</b>	<u>139,509</u>	<u>16,575,316</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 180,942</u>	<u>\$ 15,854,083</u>

See Notes to Financial Statements

Allentown Parking Authority	Totals
\$ 4,031,354	\$ 4,031,354
	1,319,037
	423,106
	477,106
<u>4,031,354</u>	<u>6,250,603</u>
1,752,875	2,236,255
	164,055
513,439	646,346
35,456	221,164
644,968	967,923
	485,284
<u>2,946,738</u>	<u>4,721,027</u>
<u>1,084,616</u>	<u>1,529,576</u>
(211,950)	(211,950)
26,517	118,110
(526,359)	(1,173,606)
(2,650)	(446,679)
427,178	427,178
12,655	(112,422)
<u>(274,609)</u>	<u>(1,399,369)</u>
810,007	130,207
<u>3,581,371</u>	<u>20,296,196</u>
<u>\$ 4,391,378</u>	<u>\$ 20,426,403</u>

**CITY OF ALLENTOWN**

**COMPONENT UNITS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Allentown Redevelopment Authority	AEDC
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers		1,616,962
Intergovernmental revenues	480,845	
Payments to employees		(483,380)
Payments to suppliers	<u>(641,276)</u>	<u>(693,264)</u>
Net cash provided by operating activities	<u>(160,431)</u>	<u>440,318</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Grants		423,106
Advance to/from other funds	(48,419)	
Other income	48,804	(173,881)
Contributions to City of Allentown		
Net cash used in noncapital financing activities	<u>385</u>	<u>249,225</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of capital assets		(6,771)
Proceeds from sale of capital assets		3,697,037
Additions to project development projects		(31,234)
Capital contributions		
Principal payments on notes and bonds payable		(3,681,110)
Principal payments on capital lease obligations		
Proceeds from bonds payable		
Financing costs		
Interest paid		(647,247)
Trustee fees		
Net cash used in capital and related financing activities	<u>-</u>	<u>(669,325)</u>
<b>Cash flows from investing activities</b>		
Maturities of certificates of deposit		
Purchase of certificates of deposit		
Investment income	807	90,786
Realty income		
Net cash provided by investing activities	<u>807</u>	<u>90,786</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(159,239)</u>	<u>111,004</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>314,319</u>	<u>4,530,243</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>155,080</u>	<u>4,641,247</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	<u>(8,178)</u>	<u>453,138</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization		322,955
Change in assets and liabilities:		
Accounts and notes receivable	3,739	(125,181)
Inventory		
Prepaid expenses		
Accounts payable and accrued expenses	2,919	(200,257)
Other liabilities	<u>(158,911)</u>	<u>(10,337)</u>
Net cash provided by operating activities	<u>\$ (160,431)</u>	<u>\$ 440,318</u>

See Notes to Financial Statements

Allentown Parking Authority	Totals
4,031,263	\$ 5,648,225
(1,767,449)	480,845
<u>(577,904)</u>	<u>(2,250,829)</u>
1,685,910	<u>(1,912,444)</u>
	1,965,797
	-
	423,106
	(48,419)
	(125,077)
<u>(197,082)</u>	<u>(197,082)</u>
<u>(197,082)</u>	<u>52,528</u>
	-
(1,285,730)	(1,292,501)
801	3,697,838
	(31,234)
327,178	327,178
(5,784,236)	(9,465,346)
(15,912)	(15,912)
4,970,000	4,970,000
(38,489)	(38,489)
(510,574)	(1,157,821)
<u>(6,190)</u>	<u>(6,190)</u>
<u>(2,343,152)</u>	<u>(3,012,477)</u>
1,300,000	1,300,000
(1,100,000)	(1,100,000)
27,220	118,813
<u>16,220</u>	<u>16,220</u>
243,440	335,033
<u>(610,884)</u>	<u>(659,119)</u>
<u>1,152,494</u>	<u>5,997,056</u>
<u>541,610</u>	<u>5,337,937</u>
<u>1,084,616</u>	<u>1,529,576</u>
644,968	967,923
9,025	(112,417)
(7,425)	(7,425)
(44,136)	(44,136)
20,578	(176,760)
<u>(21,716)</u>	<u>(190,964)</u>
<u>\$ 1,685,910</u>	<u>\$ 1,965,797</u>

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CITY OF ALLENTOWN, PENNSYLVANIA

GENERAL FUND - SCHEDULE OF REVENUES AND OTHER  
FINANCING SOURCES - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>TAXES:</b>			
Real estate:			
Current	\$24,624,211	\$23,238,105	(1,386,106)
Prior year	1,030,000	1,027,822	(2,178)
Lehigh County Tax Claims		36,964	36,964
<b>Total Real Estate Taxes</b>	<b>25,654,211</b>	<b>24,302,891</b>	<b>(1,351,320)</b>
Act 511 Taxes:			
Earned Income	7,325,000	6,518,995	(806,005)
Residence	320,000	246,243	(73,757)
Amusement Devices	35,500	26,415	(9,085)
Deed Transfer	1,200,000	1,464,610	264,610
Occupational Privilege	385,000	342,721	(42,279)
Business Privilege	5,500,000	6,207,494	707,494
<b>Total Act 511 Taxes</b>	<b>14,765,500</b>	<b>14,806,478</b>	<b>40,978</b>
<b>TOTAL TAXES</b>	<b>40,419,711</b>	<b>39,109,369</b>	<b>(1,310,342)</b>
<b>LICENSES AND PERMITS:</b>			
Business Licenses	380,000	383,107	3,107
Billboard & Sign Permits/Licenses	13,283	13,840	557
Building Permits & Licenses	632,500	402,608	(229,892)
Liquor Licenses	60,000	60,950	950
Plumbing Permits & Licenses	223,711	123,696	(100,015)
Health Bureau Permits & Licenses	147,000	138,859	(8,141)
Rental Unit Inspections	346,000	415,561	69,561
Electrical Permits & Licenses	151,800	142,478	(9,322)
Zoning Permits & Fees	90,000	76,590	(13,410)
Fire Department Inspection Fees	60,970	52,055	(8,915)
CATV Franchise Fees	878,000	909,745	31,745
Other Permits & Licenses	140,000	86,458	(53,542)
<b>TOTAL LICENSES AND PERMITS</b>	<b>3,123,264</b>	<b>2,805,947</b>	<b>(317,317)</b>

(Continued)

CITY OF ALLENTOWN, PENNSYLVANIA

GENERAL FUND - SCHEDULE OF REVENUES AND OTHER  
FINANCING SOURCES - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b><u>FINES AND FORFEITS:</u></b>			
District Court	\$475,000	\$432,667	(\$42,333)
Fines & Restitution	168,000	112,483	(55,517)
Parking Authority Reimbursement	200,000	190,265	(9,735)
<b>TOTAL FINES AND FORFEITS</b>	<b>843,000</b>	<b>735,415</b>	<b>(107,585)</b>
<b><u>INTERGOVERNMENTAL REVENUES:</u></b>			
Health Grants Acts 315 & 12	800,000	799,740	(260)
Health Categorical Grants	2,228,000	1,800,840	(427,160)
Police Training	450,000	310,039	(139,961)
Snow Control	45,500	175,780	130,280
State Aid for Pension	3,225,994	3,711,704	485,710
Police Grants/Reimbursements	1,117,320	722,422	(394,898)
Other Grants/Miscellaneous	2,211,700	59,662	(2,152,038)
<b>TOTAL INTERGOVERNMENTAL REVENUES</b>	<b>10,078,514</b>	<b>7,580,187</b>	<b>(2,498,327)</b>
<b><u>CHARGES FOR SERVICES:</u></b>			
Department Earnings:			
Tax Certifications	90,000	128,627	38,627
A.S.D. Tax Billing/Reimbursement	56,000	55,582	(418)
Police Extra Duty Jobs	54,000	83,035	29,035
Health Bureau Services	60,000	42,606	(17,394)
Street Excavation/Restoration	67,000	70,616	3,616
Printing & Copier Fees	78,000	76,667	(1,333)
Other Charges for Service	145,600	172,960	27,360
Vehicle Towing Agreement	69,000	63,250	(5,750)
911 Phone Line Service Charges	1,080,000	1,008,431	(71,569)
EMS Transit Fees	2,525,000	2,625,790	100,790
Warrants of Survey	30,000	24,438	(5,562)
<b>Total Departmental Earnings</b>	<b>4,254,600</b>	<b>4,352,002</b>	<b>97,402</b>

(Continued)

CITY OF ALLENTOWN, PENNSYLVANIA

GENERAL FUND - SCHEDULE OF REVENUES AND OTHER  
FINANCING SOURCES - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Municipal Recreation:			
Swimming Pool Fees	\$105,000	\$95,909	(\$9,091)
Recreation Fees	70,000	71,219	1,219
<b>Total Municipal Recreation</b>	<b>175,000</b>	<b>167,128</b>	<b>(7,872)</b>
General Fund Service Charges:			
Water Service Charge	1,545,679	1,545,679	
Sewer Service Charges	1,239,422	1,239,422	
Other Service Charges	672,240	649,858	(22,382)
<b>Total General Fund Service Charges</b>	<b>3,457,341</b>	<b>3,434,959</b>	<b>(22,382)</b>
<b>TOTAL CHARGES FOR SERVICE</b>	<b>7,886,941</b>	<b>7,954,089</b>	<b>67,148</b>
<b>INVESTMENT INCOME</b>	<b>826,000</b>	<b>667,532</b>	<b>(158,468)</b>
<b>OTHER INCOME:</b>			
Rental of City Property	25,000	45,849	20,849
Parking Garage Rents	55,000	56,660	1,660
Workers Compensation Refunds	60,000	0	(60,000)
Contributions	108,820	116,245	7,425
Damage to City Property	15,000	33,438	18,438
Proceeds from Land Sale	50,000		(50,000)
Lights in the Parkway	235,000	152,081	(82,919)
CD Block Grant Reimbursement	753,355	390,423	(362,932)
Pennsylvania Utility Realty Tax	150,000	66,015	(83,985)
Allentown Housing Authority	90,000	42,041	(47,959)
Recreation/Special Events	114,500	76,623	(37,877)
City Auction Proceeds	70,000	111,850	41,850
Equipment Fund Transfer	1,675,160	1,657,899	(17,261)
Miscellaneous	1,543,492	1,074,216	(469,276)
<b>TOTAL OTHER INCOME</b>	<b>4,945,327</b>	<b>3,823,340</b>	<b>(1,121,987)</b>
<b>TOTAL REVENUES</b>	<b>\$68,122,757</b>	<b>\$62,675,879</b>	<b>(\$5,446,878)</b>

(Continued)

CITY OF ALLENTOWN, PENNSYLVANIA

GENERAL FUND - SCHEDULE OF REVENUES AND OTHER  
FINANCING SOURCES - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<u>OTHER FINANCING SOURCES:</u>			
Operating Transfers In:			
Trexler Fund			
Maintenance Grant	\$1,400,000	\$1,365,000	(\$35,000)
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>\$1,400,000</b>	<b>\$1,365,000</b>	<b>(\$35,000)</b>
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<b>\$69,522,757</b>	<b>\$64,040,879</b>	<b>(\$5,481,878)</b>

(Concluded)

CITY OF ALLENTOWN, PENNSYLVANIA

GENERAL FUND - SCHEDULE OF APPROPRIATIONS,  
EXPENDITURES AND ENCUMBRANCES - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Encumbrances</u>	Total Expenditures and Encumbrances	Unencumbered Appropriations
<b>GENERAL GOVERNMENT:</b>					
Nondepartmental:					
City Council	\$ 251,097	\$ 222,936	\$ 4,153	\$ 227,089	\$ 24,008
Office of the Mayor	466,473	409,818	8,241	418,059	48,414
City Controller	249,249	240,747	4,327	245,074	4,175
Law	492,187	468,328	21,279	489,607	2,580
General and Civic	2,500,337	2,499,085	-	2,499,085	1,252
<b>Total Nondepartmental</b>	<b>3,959,343</b>	<b>3,840,914</b>	<b>38,000</b>	<b>3,878,914</b>	<b>80,429</b>
Department of Finance					
Finance	3,162,325	2,828,905	128,454	2,957,359	204,966
Information Systems	1,134,888	868,077	38,376	906,453	228,435
<b>Total Department of Finance</b>	<b>4,297,213</b>	<b>3,696,982</b>	<b>166,830</b>	<b>3,863,812</b>	<b>433,401</b>
Human Resources	514,127	364,117	115,563	479,680	34,447
<b>Total Human Resources</b>	<b>514,127</b>	<b>364,117</b>	<b>115,563</b>	<b>479,680</b>	<b>34,447</b>
<b>TOTAL GENERAL GOVERNMENT</b>	<b>8,770,683</b>	<b>7,902,013</b>	<b>320,393</b>	<b>8,222,406</b>	<b>548,277</b>
<b>PUBLIC SAFETY:</b>					
Department of Public Safety:					
Police	24,130,977	23,132,532	654,190	23,786,722	344,255
Fire	10,748,690	10,595,954	318,764	10,914,718	(166,028)
Communications	2,404,894	2,164,691	82,170	2,246,861	158,033
<b>TOTAL PUBLIC SAFETY</b>	<b>37,284,561</b>	<b>35,893,177</b>	<b>1,055,124</b>	<b>36,948,301</b>	<b>336,260</b>
<b>PUBLIC WORKS</b>					
Department of Public Works:					
Director's office	108,874	105,880	3,007	108,887	(13)
Engineering	292,914	271,747	7,063	278,810	14,104
Building Maintenance	1,741,714	1,517,706	91,215	1,608,921	132,793
Fleet Maintenance Operation	1,769,126	1,614,909	152,343	1,767,252	1,874
Streets	2,113,814	1,794,217	115,332	1,909,549	204,265
Traffic Planning and Control	841,142	694,731	135,089	829,820	11,322
Street Lighting	970,713	937,571	21,512	959,083	11,630
<b>TOTAL PUBLIC WORKS</b>	<b>7,838,297</b>	<b>6,936,761</b>	<b>525,561</b>	<b>7,462,322</b>	<b>375,975</b>

(Continued)

CITY OF ALLENTOWN, PENNSYLVANIA

GENERAL FUND - SCHEDULE OF APPROPRIATIONS,  
EXPENDITURES AND ENCUMBRANCES - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Encumbrances</u>	<u>Total Expenditures and Encumbrances</u>	<u>Unencumbered Appropriations</u>
<b>HEALTH:</b>					
Department of Community Development:					
Health	\$4,197,510	\$ 3,674,929	\$ 143,621	\$ 3,818,550	\$ 378,960
<b>TOTAL HEALTH AND SANITATION</b>	<b>4,197,510</b>	<b>3,674,929</b>	<b>143,621</b>	<b>3,818,550</b>	<b>378,960</b>
<b>PARKS AND RECREATION:</b>					
Department of Community Development:					
Park Maintenance	1,836,166	1,724,519	53,198	1,777,717	58,449
Recreation	932,981	870,430	20,118	890,548	42,433
Swimming Pool Operation	215,589	211,265	-	211,265	4,324
<b>TOTAL PARKS AND RECREATION</b>	<b>2,984,736</b>	<b>2,806,214</b>	<b>73,316</b>	<b>2,879,530</b>	<b>105,206</b>
<b>COMMUNITY DEVELOPMENT AND PLANNING:</b>					
Department of Community Development:					
Director's Office	2,750,524	1,071,333	1,063,230	2,134,563	615,961
Planning and Zoning	815,552	596,077	62,682	658,759	156,793
Building Standards & Safety	1,972,781	1,320,783	54,475	1,375,258	597,523
<b>TOTAL COMMUNITY DEVELOPMENT AND PLANNING</b>	<b>5,538,857</b>	<b>2,988,193</b>	<b>1,180,387</b>	<b>4,168,580</b>	<b>1,370,277</b>
<b>CAPITAL OUTLAYS</b>	<b>1,977,016</b>	<b>1,619,869</b>	<b>143,038</b>	<b>1,762,907</b>	<b>214,109</b>
<b>TOTALS</b>	<b>68,591,660</b>	<b>61,821,156</b>	<b>3,441,440</b>	<b>65,262,596</b>	<b>3,329,064</b>
<b>TRANSFERS OUT:</b>					
Debt Service Fund	6,243,259	6,180,336	-	6,180,336	62,923
<b>TOTAL TRANSFERS OUT</b>	<b>6,243,259</b>	<b>6,180,336</b>		<b>6,180,336</b>	<b>62,923</b>
<b>TOTAL GENERAL FUND</b>	<b>\$ 74,834,919</b>	<b>\$ 68,001,492</b>	<b>\$ 3,441,440</b>	<b>\$ 71,442,932</b>	<b>\$ 3,391,987</b>

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CITY OF ALLENTOWN, PENNSYLVANIA

SCHEDULE OF GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY  
 DECEMBER 31, 2003

	<u>Total</u>	<u>Land</u>	<u>Property Held for Development</u>	<u>Infrastructure</u>
<b><u>GENERAL GOVERNMENT:</u></b>				
Nondepartmental:				
City council	\$62,237			
Office of the Mayor	9,309			
City controller	3,062			
Law	11,882			
<b>Total nondepartmental</b>	<b>86,490</b>			
Department of Administration and Finance:				
Director's office	5,526			
Finance	338,674			
Human Resources	8,770			
Information systems	660,336			
Management services	8,050,384	\$436,235		
<b>Total department of administration and finance</b>	<b>9,063,690</b>	<b>436,235</b>		
<b>TOTAL GENERAL GOVERNMENT</b>	<b>9,150,180</b>	<b>436,235</b>		
<b><u>PUBLIC SAFETY:</u></b>				
Department of Public Safety:				
Police	4,132,594			
Fire	9,050,682	154,490		
Communications	4,755,065	12,000		
<b>TOTAL PUBLIC SAFETY</b>	<b>17,938,341</b>	<b>166,490</b>		
<b><u>PUBLIC WORKS:</u></b>				
Department of Public Works:				
Director's office	7,099			
Engineering	733,423			
Streets	67,310,800	47,341		61,036,899
Fleet Maintenance	341,095	71,980		
Traffic planning and control	3,719,226			
Building maintenance	9,722,677	554,101		
<b>TOTAL PUBLIC WORKS</b>	<b>81,834,320</b>	<b>673,422</b>		<b>61,036,899</b>

Schedule consists of both facing pages

<u>Buildings</u>	<u>Land and Building Improvements</u>	<u>Machinery and Equipment</u>	<u>Vehicles</u>	<u>Art</u>
		\$62,237		
		9,309		
		3,062		
		11,882		
		86,490		
		5,526		
\$990		316,491	\$21,193	
		8,770		
40,889		619,447		
4,613,628	\$2,615,826	289,529		\$95,166
4,655,507	2,615,826	1,239,763	21,193	95,166
4,655,507	2,615,826	1,326,253	21,193	95,166
450,372	260,319	797,995	2,623,908	
2,727,497	960,115	1,528,731	3,679,850	
55,785	276,487	4,384,288	26,505	
3,233,654	1,496,921	6,711,014	6,330,263	
		7,099		
	515,262	81,381	136,780	
857,636	262,916	851,095	4,254,913	
	111,315	60,705	97,095	
	25,471	3,430,869	262,886	
7,942,467	694,819	301,671	229,619	
8,800,103	1,609,783	4,732,820	4,981,293	

(Continued)

CITY OF ALLENTOWN, PENNSYLVANIA

SCHEDULE OF GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY  
 DECEMBER 31, 2003

	<u>Total</u>	<u>Land</u>	<u>Property Held for Development</u>	<u>Infrastructure</u>
<u>HEALTH:</u>				
Department of Community Development: Health	\$1,697,362			
<b>TOTAL HEALTH</b>	<b>1,697,362</b>			
<u>PARKS AND RECREATION:</u>				
Department of Community Development: Park maintenance	10,914,524	\$5,388,088		
Swimming pools	2,860,210			
Recreation	4,562,238		113,140	
Trexler Park	4,898,237		1,167,250	
<b>TOTAL PARKS AND RECREATION</b>	<b>23,235,209</b>	<b>6,668,478</b>		
<u>COMMUNITY DEVELOPMENT AND PLANNING:</u>				
Department of Community Development: Director of Community Development	477,130			
Planning	424,922	63,603		
Bureau of code enforcement and rehabilitation	1,987,290	95,000	\$1,271,488	
<b>TOTAL COMMUNITY DEVELOPMENT AND PLANNING</b>	<b>2,889,342</b>	<b>158,603</b>	<b>1,271,488</b>	<b>0</b>
<b>Total general fixed assets allocated to functions</b>	<b>136,744,754</b>	<b>\$8,103,228</b>	<b>\$1,271,488</b>	<b>\$61,036,899</b>
<b>CONSTRUCTION IN PROGRESS</b>	<b>1,643,518</b>			
<b>TOTAL GENERAL FIXED ASSETS</b>	<b>\$138,388,272</b>			

Schedule consists of both facing pages

<u>Buildings</u>	<u>Land and Building Improvements</u>	<u>Machinery and Equipment</u>	<u>Vehicles</u>	<u>Art</u>
\$4,382	\$1,005,870	\$544,998	\$142,112	
4,382	1,005,870	544,998	142,112	
1,497,745	2,199,821	1,031,297	797,573	
1,131,993	1,596,089	132,128		
817,700	2,926,048	553,752	151,598	
348,186	2,377,996	175,340	829,465	
3,795,624	9,099,954	1,892,517	1,778,636	
205,000		272,130		
282,855		62,156	16,308	
238,985	10,598	123,524	247,695	
726,840	10,598	457,810	264,003	
\$21,216,110	\$15,838,952	\$15,665,412	\$13,517,500	\$95,166

CITY OF ALLENTOWN, PENNSYLVANIA

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY  
FOR THE YEAR ENDED DECEMBER 31, 2003

	General Fixed Assets at Beginning of Year	Transfers in and Additions	Transfers out and Disposals	General Fixed Assets at End of Year
<b><u>GENERAL GOVERNMENT:</u></b>				
Nondepartmental:				
City council	\$66,697		(\$4,460)	\$62,237
Office of the Mayor Information and services	9,309			9,309
City controller	3,062			3,062
City treasurer				
Law	11,882			11,882
<b>Total nondepartmental</b>	<b>90,950</b>		<b>(4,460)</b>	<b>86,490</b>
Department of Administration and Finance:				
Director's office	5,526			5,526
Finance	364,045		(25,371)	338,674
Human Resources	8,770			8,770
Information systems	583,273	87,018	(9,955)	660,336
Management services	7,995,294	56,560	(1,470)	8,050,384
<b>Total department of administration and finance</b>	<b>8,956,908</b>	<b>143,578</b>	<b>(36,796)</b>	<b>9,063,690</b>
<b>TOTAL GENERAL GOVERNMENT</b>	<b>9,047,858</b>	<b>143,578</b>	<b>(41,256)</b>	<b>9,150,180</b>
<b><u>PUBLIC SAFETY:</u></b>				
Department of Public Safety:				
Police	2,918,236	1,366,175	(151,817)	4,132,594
Fire	8,539,055	629,416	(117,789)	9,050,682
Communications	4,722,466	59,386	(26,787)	4,755,065
<b>TOTAL PUBLIC SAFETY</b>	<b>16,179,757</b>	<b>2,054,977</b>	<b>(296,393)</b>	<b>17,938,341</b>
<b><u>PUBLIC WORKS:</u></b>				
Department of Public Works:				
Director's office	8,554		(1,455)	7,099
Engineering	727,000	16,378	(9,955)	733,423
Streets	65,954,800	1,504,025	(148,025)	67,310,800
Fleet Maintenance	218,938	148,331	(26,174)	341,095
Traffic planning and control	3,712,977	17,477	(11,228)	3,719,226
Building maintenance	9,691,498	48,629	(17,450)	9,722,677
<b>TOTAL PUBLIC WORKS</b>	<b>80,313,767</b>	<b>1,734,840</b>	<b>(214,287)</b>	<b>81,834,320</b>

(Continued)

CITY OF ALLENTOWN, PENNSYLVANIA

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY  
FOR THE YEAR ENDED DECEMBER 31, 2003

	General Fixed Assets at Beginning of Year	Transfers in and Additions	Transfers out and Disposals	General Fixed Assets at End of Year
<b>HEALTH:</b>				
Department of Community Development:				
Health	\$2,529,155	\$51,355	(\$883,148)	\$1,697,362
<b>TOTAL HEALTH</b>	<b>2,529,155</b>	<b>51,355</b>	<b>(883,148)</b>	<b>1,697,362</b>
<b>PARKS AND RECREATION:</b>				
Department of Community Development:				
Park maintenance	9,988,065	967,469	(41,010)	10,914,524
Swimming pools	2,860,210	0		2,860,210
Recreation	4,558,646	14,368	(10,776)	4,562,238
Trexler Park	5,043,159		(144,922)	4,898,237
<b>TOTAL PARKS AND RECREATION</b>	<b>22,450,080</b>	<b>981,837</b>	<b>(196,708)</b>	<b>23,235,209</b>
<b>COMMUNITY DEVELOPMENT AND PLANNING:</b>				
Department of Community Development:				
Director of Community Development	408,018	70,000	(888)	477,130
Planning	429,800	0	(4,878)	424,922
Bureau of building standards and safety	2,139,696	118,882	(271,288)	1,987,290
<b>TOTAL COMMUNITY DEVELOPMENT AND PLANNING</b>	<b>2,977,514</b>	<b>188,882</b>	<b>(277,054)</b>	<b>2,889,342</b>
Total general fixed assets allocated to functions	133,498,131	5,155,469	(1,908,846)	136,744,754
<b>CONSTRUCTION IN PROGRESS</b>	<b>200,363</b>	<b>1,443,155</b>	<b>0</b>	<b>1,643,518</b>
<b>TOTAL GENERAL FIXED ASSETS</b>	<b>\$133,698,494</b>	<b>\$6,598,624</b>	<b>(\$1,908,846)</b>	<b>\$138,388,272</b>

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**CITY OF ALLENTOWN, PENNSYLVANIA**  
**GOVERNMENT-WIDE EXPENSES BY FUNCTION**

**Last Ten Years**

<u>Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Health and Sanitation</u>	<u>Parks and Recreation</u>
1994	\$6,245,924	\$19,877,073	\$5,157,122	\$2,737,219	\$2,431,488
1995	\$6,966,266	\$23,277,401	\$5,640,715	\$3,283,000	\$2,751,147
1996	\$7,227,790	\$20,289,050	\$6,138,373	\$3,243,057	\$2,083,646
1997	\$5,897,113	\$23,052,336	\$5,519,542	\$3,183,922	\$1,786,206
1998	\$5,349,043	\$25,586,657	\$5,707,544	\$3,445,911	\$1,953,834
1999	\$4,372,912	\$27,246,715	\$5,959,544	\$3,567,167	\$1,986,004
2000	\$4,172,741	\$28,977,988	\$5,871,877	\$3,691,308	\$1,966,966
2001	\$4,235,327	\$30,164,406	\$5,983,850	\$4,086,983	\$1,863,154
2002	\$3,096,579	\$34,285,980	\$7,727,514	\$5,186,895	\$1,992,820
2003	\$5,900,215	\$34,579,587	\$11,008,262	\$3,762,726	\$2,445,365

TABLE 1

<u>Community Development</u>	<u>Debt Service</u>	<u>Capital Outlays</u>	<u>Total</u>
\$4,743,963	\$5,807,316	\$6,730,323	\$53,730,428
\$5,311,724	\$13,801,176	\$6,043,369	\$67,074,798
\$6,103,498	\$7,038,316	\$4,009,402	\$56,133,132
\$7,339,551	\$7,349,891	\$8,492,810	\$62,621,371
\$7,435,123	\$7,816,285	\$5,597,688	\$62,892,085
\$8,360,102	\$9,337,356	\$5,756,460	\$66,586,260
\$7,840,448	\$9,693,519	\$7,977,897	\$70,192,744
\$6,368,147	\$10,175,603	\$6,568,739	\$69,446,209
\$5,686,181	\$10,466,516	\$5,660,189	\$74,102,674
\$6,720,749	\$10,411,400	\$6,534,655	\$81,362,959

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**GOVERNMENT-WIDE REVENUES BY SOURCE**

**Last Ten Years**

<u>Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Fines and Forfeits</u>	<u>Inter- Governmental Revenues</u>	<u>Charges for Services</u>
1994	\$31,695,821	\$1,624,486	\$383,808	\$12,792,378	\$2,092,838
1995	\$31,068,534	\$1,605,759	\$424,054	\$11,662,472	\$2,131,606
1996	\$30,334,955	\$2,042,596	\$403,633	\$15,269,908	\$2,101,855
1997	\$31,872,767	\$1,769,371	\$451,748	\$14,027,316	\$2,064,717
1998	\$32,059,558	\$2,221,622	\$492,710	\$11,883,251	\$2,598,128
1999	\$33,653,807	\$2,191,454	\$448,828	\$13,097,035	\$2,236,231
2000	\$35,842,284	\$2,094,929	\$538,265	\$13,078,062	\$2,479,899
2001	\$36,457,784	\$2,438,559	\$465,853	\$13,943,490	\$2,438,672
2002	\$36,314,207	\$2,543,809	\$548,383	\$16,372,149	\$3,151,332
2003	\$38,926,651	\$2,805,947	\$735,416	\$15,093,944	\$4,442,950

Note: General government revenues are presented using the modified accrual basis of accounting and include revenues of the governmental funds.

TABLE 2

<b><u>Investment Income</u></b>	<b><u>Other Income</u></b>	<b><u>Total</u></b>
\$1,717,678	\$3,900,382	\$54,207,391
\$1,954,924	\$4,225,304	\$53,072,653
\$1,574,428	\$4,172,836	\$55,900,211
\$1,720,289	\$4,246,579	\$56,152,787
\$1,921,451	\$4,429,884	\$55,606,604
\$ 915,255	\$4,738,836	\$57,281,446
\$1,886,658	\$5,369,951	\$61,290,048
\$1,246,390	\$5,885,982	\$62,876,730
\$1,056,030	\$6,591,076	\$66,576,986
\$403,808	\$2,398,988	\$64,807,704

## CITY OF ALLENTOWN, PENNSYLVANIA

## TAX REVENUES BY SOURCE

## Last Ten Years

<u>Year</u>	<u>Total Taxes</u>	<u>General Property Tax</u>	<u>Earned Income Tax</u>	<u>Business Privilege Tax</u>	<u>Other Local Taxes</u>
1994	\$31,695,821	\$20,566,533	\$5,815,662	\$3,996,840	\$1,316,786
1995	\$31,068,534	\$19,932,945	\$5,536,114	\$4,488,191	\$1,111,284
1996	\$30,334,955	\$19,676,956	\$5,012,237	\$4,247,720	\$1,398,042
1997	\$31,872,767	\$20,117,434	\$6,167,510	\$4,263,095	\$1,324,728
1998	\$32,059,558	\$20,061,180	\$5,763,353	\$4,691,543	\$1,543,482
1999	\$33,653,807	\$20,008,280	\$6,991,399	\$4,897,810	\$1,756,318
2000	\$35,842,284	\$21,460,876	\$7,198,352	\$5,155,281	\$2,027,775
2001	\$36,457,784	\$22,048,441	\$7,304,427	\$5,250,934	\$1,853,982
2002	\$36,314,207	\$21,636,395	\$7,245,325	\$5,525,667	\$1,906,820
2003	\$38,926,651	\$24,343,349	\$6,277,135	\$6,207,494	\$2,098,673

Note: Amounts are presented using the modified accrual basis of accounting

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**CITY OF ALLENTOWN, PENNSYLVANIA**  
**REAL ESTATE TAX LEVIES AND COLLECTIONS**

**Last Ten Years**

<u>Year</u>	<u>Total Tax Levy (1)</u>	<u>Current Tax Collections (1)</u>	<u>Percent of Levy Collections</u>	<u>Delinquent Tax Collections (2)</u>	<u>Total Tax Collections</u>
1994	\$20,062,537	\$19,003,945	94.7%	\$1,601,690	\$20,605,635
1995	\$19,986,842	\$18,794,766	94.0%	\$1,224,129	\$20,018,895
1996	\$19,833,176	\$18,589,514	93.7%	\$1,278,092	\$19,867,606
1997	\$19,891,622	\$18,682,899	93.9%	\$1,262,825	\$19,945,724
1998	\$19,858,203	\$18,702,668	94.2%	\$1,324,465	\$20,027,133
1999	\$19,797,578	\$18,633,201	94.1%	\$1,391,241	\$20,024,442
2000	\$21,485,711	\$20,149,832	93.8%	\$1,406,608	\$21,556,440
2001	\$21,515,846	\$20,545,834	95.5%	\$1,497,234	\$22,043,068
2002	\$20,894,638	\$20,383,118	97.6%	\$1,196,489	\$21,579,607
2003	\$24,224,660	\$23,238,105	95.9%	\$1,064,786	\$24,302,891

Notes: Data is presented on the cash basis.

- (1) Includes Interim Taxes
- (2) Prior Years and Tax Claim Collection

TABLE 4

<b>Total Collections as Percent of Current <u>Levy</u></b>	<b>Outstanding Delinquent Taxes</b>	<b>Outstanding Delinquent Taxes as Percent of <u>Current Levy</u></b>
102.7%	\$2,494,535	12.4%
100.2%	\$2,082,031	10.4%
100.2%	\$2,092,551	10.6%
100.3%	\$2,103,470	10.6%
100.9%	\$2,020,136	10.2%
101.1%	\$1,992,713	10.1%
100.3%	\$1,959,941	9.1%
102.5%	\$1,699,508	7.9%
103.3%	\$1,437,251	6.9%
100.3%	\$1,604,289	6.6%

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**ASSESSED AND APPRAISED VALUE OF TAXABLE PROPERTY**

**Last Ten Years**

**Real Property**

<b><u>Year</u></b>	<b><u>Assessed</u></b>	<b><u>Appraised</u></b>	<b><u>Ratio of Assessed to Appraised</u></b>	<b><u>Market</u></b>	<b><u>Assessed Valuation as Percent of Market</u></b>
1994	\$1,643,655,650	\$3,287,311,300	50.0	\$3,287,311,300	50.0
1995	\$1,628,031,000	\$3,256,062,000	50.0	\$3,256,062,000	50.0
1996	\$1,629,578,200	\$3,259,156,400	50.0	\$3,259,156,400	50.0
1997	\$1,627,314,750	\$3,254,629,500	50.0	\$3,254,629,500	50.0
1998	\$1,626,530,000	\$3,253,060,000	50.0	\$3,253,060,000	50.0
1999	\$1,626,659,600	\$3,253,319,200	50.0	\$3,253,319,200	50.0
2000	\$1,632,649,200	\$3,265,298,400	50.0	\$3,265,298,400	50.0
2001	\$1,642,578,150	\$3,285,156,300	50.0	\$3,285,156,300	50.0
2002	\$1,653,682,750	\$3,307,365,500	50.0	\$3,307,365,500	50.0
2003	\$1,681,170,950	\$3,362,341,900	50.0	\$3,362,314,900	50.0

Notes: Based on 1990 County Reassessment

## CITY OF ALLENTOWN, PENNSYLVANIA

## PROPERTY TAX RATES AND TAX LEVIES - DIRECT AND OVERLAPPING

## Last Ten Years

**Tax Rates**  
**(Mills per \$1 of Assessment)**

<u>Year</u>	<u>City</u>	<u>School District</u>	<u>County</u>	<u>Total</u>
1994	12.22	31.270	7.31	50.80
1995	12.22	31.270	7.31	50.80
1996	12.22	31.270	7.31	50.80
1997	12.22	31.270	7.31	50.80
1998	12.22	31.270	7.31	50.80
1999	12.22	31.270	7.31	50.80
2000	13.22	31.270	7.31	51.80
2001	13.22	33.311	7.31	53.84
2002	12.72	34.194	7.31	54.22
2003	14.72*	37.490	12.39	64.60

## Tax Levies

<u>Year</u>	<u>City</u>	<u>School District</u>	<u>County</u>	<u>Total</u>
1994	\$20,062,537	\$50,867,783	\$12,034,549	\$82,964,869
1995	\$19,986,842	\$50,475,423	\$11,938,494	\$82,400,759
1996	\$19,833,176	\$50,109,624	\$11,900,912	\$81,843,712
1997	\$19,891,622	\$50,188,855	\$11,912,222	\$81,992,699
1998	\$19,858,203	\$49,975,221	\$11,895,679	\$81,729,103
1999	\$19,797,578	\$49,639,281	\$11,889,071	\$81,325,930
2000	\$21,485,711	\$49,586,699	\$11,890,890	\$82,963,300
2001	\$21,515,846	\$52,849,010	\$11,926,175	\$86,291,031
2002	\$20,894,638	\$54,283,777	\$12,002,981	\$87,181,396
2003	\$24,224,660	\$59,488,098	\$20,426,030	\$104,138,788

## Notes:

City real estate taxes are payable on June 5 with a 2% discount available if paid prior to April 6. Taxes can also be paid in four equal installments on April 15, May 15, June 15, and July 15. Delinquent taxes are certified to a private collector for collection on January 1 of the following year.

The City's property tax rate limitation for general revenue purposes is 25 mills on market value with an additional 5 mills allowable with specific court approval and an unlimited amount for bonded debt.

\* 14.72 is the base on which the land value tax is calculated (41.95 - land and 8.93 - improvements)

## CITY OF ALLENTOWN, PENNSYLVANIA

## RATIO OF BONDED DEBT TO ASSESSED VALUE

## Last Ten Years

<u>Year</u>	<u>Population</u>	<u>Assessed Value</u>	<u>Bonded Debt</u>	<u>Bonded Debt as a Percentage of Assessed Value</u>	<u>Bonded Debt Per Capita</u>	<u>Debt Per Capita as a % of Per Capita Income</u>
1994	106,640	\$1,643,655,650	\$51,268,623	3.1%	\$480.76	3.4%
1995	105,550	\$1,628,031,000	\$43,465,000	2.7%	\$411.80	2.8%
1996	105,550	\$1,629,578,200	\$82,240,000	5.0%	\$779.16	5.1%
1997	105,550	\$1,627,314,750	\$85,300,000	5.2%	\$808.15	5.2%
1998	105,550	\$1,626,530,000	\$87,015,000	5.3%	\$824.40	5.1%
1999	105,550	\$1,626,659,600	\$85,715,000	5.3%	\$812.08	4.9%
2000	106,632	\$1,632,649,200	\$84,810,000	5.2%	\$795.35	4.7%
2001	106,632	\$1,642,578,150	\$84,000,000	5.1%	\$787.76	4.5%
2002	106,632	\$1,653,682,750	\$78,505,000	4.7%	\$736.22	4.2%
2003	106,632	\$1,681,170,950	\$81,925,000	4.9%	\$768.30	4.3%

## CITY OF ALLENTOWN, PENNSYLVANIA

## LEGAL DEBT MARGIN

As of December 31, 2003

**Net Nonelectoral General Obligation Debt Limit:**

Borrowing base (1)	\$ 49,084,118
Percentage limitation	<u>250%</u>
Net nonelectoral debt limit	122,710,295
Less Net nonelectoral debt outstanding (2)	<u>52,915,000</u>

**REMAINING BORROWING CAPACITY AS OF DECEMBER 31, 2003****\$ 69,795,295****Net Nonelectoral Plus Lease Rental Debt Limit:**

Borrowing base (1)	\$ 49,084,118
Percentage limitation	<u>350%</u>
Net nonelectoral plus lease rental debt limit	171,794,413
Less net nonelectoral debt plus lease rental debt outstanding (2)	<u>52,915,000</u>

**REMAINING BORROWING CAPACITY AS OF DECEMBER 31, 2003****\$118,879,413**

(1) The Commonwealth of Pennsylvania has enacted the "Local Government Unit Debt Act" which limits debt to revenues. Briefly, revenues of the last three years are adjusted for various nonrecurring and excludable items. The average of the adjusted revenues for the respective years is then the borrowing base. Certain percentages are applied to the borrowing base to determine the debt limitations.

(2) For computation purposes, this amount has been reduced by \$30,810,000, which is the outstanding balance of the 1996 GO Bond Issue used to finance City's pension funding liability as allowed by statute.

**CITY OF ALLENTOWN, PENNSYLVANIA  
COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
As of December 31, 2003**

TABLE 9

	<u>Net Debt Outstanding</u>	<u>City of Allentown Pro-Rata Share</u>	<u>City of Allentown Share of Debt</u>
<b><u>DIRECT DEBT</u></b>			
City General Obligation Bonds:			
1993 General Obligation Bonds	\$ 1,850,000	100%	\$ 1,850,000
1995 General Obligation Bonds	3,735,000	100%	3,735,000
1996 General Obligation Bonds	30,810,000	100%	30,810,000
1997 General Obligation Bonds	10,590,000	100%	10,590,000
1998 General Obligation Bonds	7,590,000	100%	7,590,000
2000 General Obligation Bonds	3,330,000	100%	3,330,000
2001 General Obligation Bonds	7,170,000	100%	7,170,000
2003 General Obligation Bonds	<u>16,850,000</u>	<u>100%</u>	<u>16,850,000</u>
<b>SUB TOTAL</b>	<b><u>81,925,000</u></b>	<b><u>100%</u></b>	<b><u>81,925,000</u></b>
Water Revenue Bonds:			
1993 Water Revenue Bonds	1,105,000	100%	1,105,000
1995 Water Revenue Bonds	4,300,000	100%	4,300,000
1997 Water Revenue Bonds	5,600,000	100%	5,600,000
1998 Water Revenue Bonds	5,150,000	100%	5,150,000
1999 Water Revenue Bonds	345,000	100%	345,000
2000 Water Revenue Bonds	1,200,000	100%	1,200,000
2001 Water Revenue Bonds	14,385,000	100%	14,385,000
2003 Water Revenue Bonds	<u>2,480,000</u>	<u>100%</u>	<u>2,480,000</u>
<b>SUB TOTAL</b>	<b><u>34,565,000</u></b>	<b><u>100%</u></b>	<b><u>34,565,000</u></b>
Sewer Revenue Bonds:			
1993 Sewer Revenue Bonds	645,000	100%	645,000
1997 Sewer Revenue Bonds	1,325,000	100%	1,325,000
1998 Sewer Revenue Bonds	9,280,000	100%	9,280,000
1999 Sewer Revenue Bonds	185,000	100%	185,000
2001 Sewer Revenue Bonds	1,715,000	100%	1,715,000
2003 Sewer Revenue Bonds	<u>5,680,000</u>	<u>100%</u>	<u>5,680,000</u>
<b>SUB TOTAL</b>	<b><u>18,830,000</u></b>	<b><u>100%</u></b>	<b><u>18,830,000</u></b>
Allentown Parking Authority Bonds of 1999	5,445,000	100%	5,445,000
Allentown Parking Authority Bonds of 2003	4,970,000	100%	4,970,000
Allentown Economic Development Corporation	2,361,142	100%	2,361,142
CDBG Section 108 HUD Notes	<u>1,800,000</u>	<u>100%</u>	<u>1,800,000</u>
<b>GROSS DIRECT DEBT</b>	<b><u>149,896,142</u></b>	<b><u>100%</u></b>	<b><u>149,896,142</u></b>

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**As of December 31, 2003**

TABLE 9

	<u>Net Debt Outstanding</u>	<u>City of Allentown Pro-Rata Share</u>	<u>City of Allentown Share of Debt</u>
<b>LESS:</b>			
<b>SELF-SUPPORTING DEBT</b>			
Water Revenue Bonds			
1993 Water Revenue Bonds	\$ 1,105,000	100%	\$ 1,105,000
1995 Water Revenue Bonds	4,300,000	100%	4,300,000
1997 Water Revenue Bonds	5,600,000	100%	5,600,000
1998 Water Revenue Bonds	5,150,000	100%	5,150,000
1999 Water Revenue Bonds	345,000	100%	345,000
2000 Water Revenue Bonds	1,200,000	100%	1,200,000
2001 Water Revenue Bonds	14,385,000	100%	14,385,000
2003 Water Revenue Bonds	2,480,000	100%	2,480,000
Sewer Revenue Bonds			
1993 Sewer Revenue Bonds	645,000	100%	645,000
1997 Sewer Revenue Bonds	1,325,000	100%	1,325,000
1998 Sewer Revenue Bonds	9,280,000	100%	9,280,000
1999 Sewer Revenue Bonds	185,000	100%	185,000
2001 Sewer Revenue Bonds	1,715,000	100%	1,715,000
2003 Sewer Revenue Bonds	5,680,000	100%	5,680,000
Allentown Parking Authority Bonds of 1993	5,445,000	100%	5,445,000
Allentown Parking Authority Bonds of 1999	4,970,000	100%	4,970,000
Allentown Economic Development Corporation	<u>2,361,142</u>	100%	<u>2,361,142</u>
TOTAL SELF SUPPORTING DEBT	<u>66,171,142</u>	100%	<u>66,171,142</u>
TOTAL DIRECT DEBT	<u>83,725,000</u>	100%	<u>83,725,000</u>
<b><u>OVERLAPPING DEBT</u></b>			
Allentown School District	50,637,910	100%	50,637,910
Lehigh County General Obligation Bonds	<u>120,823,160</u>	21.9%	<u>26,460,272</u>
TOTAL OVERLAPPING DEBT	<u>171,461,070</u>		<u>77,098,182</u>
TOTAL DIRECT AND OVERLAPPING DEBT	<u><b>\$255,186,070</b></u>		<u><b>\$160,823,182</b></u>

## CITY OF ALLENTOWN, PENNSYLVANIA

RATIO OF ANNUAL DEBT EXPENDITURES FOR GENERAL DEBT  
TO TOTAL GENERAL EXPENDITURES

Last Ten Years

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Lease Rental</u>	<u>Total Debt Service</u>	<u>Total General Expenditures</u>	<u>Percentage of Debt Service to General Expenditures</u>
1994	\$3,180,000	\$2,562,316	-----	\$5,742,316	\$53,730,428	10.7%
1995	\$11,203,623	\$2,532,553	-----	\$13,736,176	\$67,074,798	20.5%
1996	\$2,765,000	\$4,208,316	-----	\$6,973,316	\$56,133,132	12.4%
1997	\$2,450,000	\$4,434,891	-----	\$6,884,891	\$62,621,371	11.0%
1998	\$2,705,000	\$4,637,760	-----	\$7,342,760	\$62,892,085	11.7%
1999	\$4,335,000	\$4,687,356	-----	\$9,022,356	\$66,586,260	13.5%
2000	\$4,585,000	\$4,743,519	-----	\$9,328,519	\$70,192,744	13.3%
2001	\$5,000,000	\$4,725,143	-----	\$9,725,143	\$69,446,209	14.0%
2002	\$5,910,000	\$4,556,516	-----	\$10,466,516	\$74,102,674	14.1%
2003	\$5,955,000	\$4,456,400	-----	\$10,411,400	\$80,762,346	12.9%

## CITY OF ALLENTOWN, PENNSYLVANIA

## SCHEDULE OF REVENUE BOND COVERAGE - WATER AND SEWER FUNDS (1)

## Last Ten Years

Year	Gross Revenues	(2) Expenses	Net Revenues Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
<b><u>Water Fund</u></b>							
1994	\$11,578,563	\$7,030,806	\$4,547,757	\$1,500,000	\$1,892,582	\$3,392,582	1.34
1995	\$11,681,749	\$8,144,528	\$3,537,221	\$1,715,000	\$2,188,849	\$3,903,849	0.91
1996	\$12,368,843	\$7,594,185	\$4,774,658	\$2,075,000	\$3,024,623	\$5,099,623	0.94
1997	\$14,410,455	\$7,215,967	\$7,194,488	\$2,230,000	\$2,707,945	\$4,937,945	1.46
1998	\$13,946,972	\$7,077,386	\$6,869,586	\$2,715,000	\$2,400,231	\$5,115,231	1.34
1999	\$13,270,956	\$6,982,013	\$6,288,943	\$2,935,000	\$2,170,545	\$5,105,545	1.23
2000	\$13,571,764	\$7,567,332	\$6,004,432	\$3,135,000	\$2,213,786	\$5,348,786	1.12
2001	\$12,504,275	\$7,632,582	\$4,871,693	\$3,310,000	\$2,042,145	\$5,352,145	0.91
2002	\$12,576,057	\$7,875,504	\$4,700,553	\$3,385,524	\$1,820,249	\$5,205,773	0.90
2003	\$15,086,442	\$7,909,525	\$7,176,917	\$3,932,351	\$1,636,014	\$5,568,365	1.29
<b><u>Sewer Fund</u></b>							
1994	\$12,002,051	\$8,517,390	\$3,484,661	\$692,500	\$812,982	\$1,505,482	2.31
1995	\$9,844,641	\$8,577,134	\$1,267,507	\$730,000	\$774,436	\$1,504,436	0.84
1996	\$11,113,298	\$9,805,982	\$1,307,316	\$767,500	\$735,725	\$1,503,225	0.87
1997	\$10,487,645	\$9,414,140	\$1,073,505	\$762,500	\$596,811	\$1,359,311	0.79
1998	\$10,150,191	\$8,805,301	\$1,344,890	\$895,000	\$581,694	\$1,476,694	0.91
1999	\$10,198,259	\$8,600,508	\$1,597,751	\$1,200,000	\$770,858	\$1,970,858	0.81
2000	\$11,187,682	\$8,484,754	\$2,702,928	\$1,325,000	\$885,030	\$2,210,030	1.22
2001	\$10,272,891	\$9,117,327	\$1,155,564	\$1,485,000	\$979,865	\$2,464,865	0.47
2002	\$12,450,614	\$9,525,592	\$2,925,022	\$1,600,000	\$989,132	\$2,589,132	1.13
2003	\$15,344,641	\$9,322,780	\$6,021,861	\$1,630,000	\$827,134	\$2,457,134	2.45

## Notes:

- (1) Revenues, expenses and interest are presented using the accrual basis of accounting.
- (2) Expenses do not include interest expense, loss on disposition of assets and depreciation charges but include operating transfers out.

## CITY OF ALLENTOWN, PENNSYLVANIA

## DEMOGRAPHIC STATISTICS

## Last Ten Years

<u>Year</u>	<u>Population (1)</u>	<u>Per Capita Income (2)</u>	<u>School Enrollment (3)</u>
1994	106,640	\$14,352	14,600
1995	105,550	\$14,782	14,963
1996	105,550	\$15,165	15,357
1997	105,550	\$15,620	15,629
1998	105,550	\$16,088	15,629
1999	105,550	\$16,571	16,243
2000	106,632	\$17,068	16,424
2001	106,632	\$17,342	16,174
2002	106,632	\$17,426	16,693
2003	106,632	\$17,988	16,969

Data Sources:

- (1) 1994, estimated figure from the Bureau of the Census. 1995-99, estimated figure from the Lehigh-Northampton County Joint Planning Commission and the Planning Bureau of the City of Allentown. 2000-03, U.S. Department of Commerce, Bureau of the Census.
- (2) Data obtained is the best available estimate from the Allentown City Planning Bureau.
- (3) Allentown School District. Figures represent public school enrollment only.

## CITY OF ALLENTOWN, PENNSYLVANIA

## CONSTRUCTION, PROPERTY VALUES, AND BANK DEPOSITS

## Last Ten Years

Year	Commercial Construction (1)		Residential Construction (1)		Building Permits	Value of
	Units	Value	Units	Value	Issued	Buildings
1994	12	\$5,415,200	16	\$1,490,900	2,260	\$3,057,648
1995	5	\$969,107	25	\$2,619,000	1,710	\$24,065,955
1996	41	\$11,751,250	24	\$2,829,000	1,917	\$48,550,935
1997	21	\$1,159,620	28	\$4,421,164	1,660	\$25,118,985
1998	28	\$10,330,070	54	\$7,693,758	1,405	\$23,327,314
1999	24	\$9,382,258	105	\$12,020,428	1,323	\$18,282,179
2000	62	\$17,688,453	75	\$11,416,305	1,158	\$24,881,403
2001	33	\$38,230,024	77	\$11,379,685	1,113	\$42,735,900
2002	35	\$50,917,418	67	\$12,713,011	967	\$15,075,966
2003	34	\$18,940,850	79	\$16,892,100	1,242	\$36,732,950

Property Assessed Valuation (2)

Year	Commercial	Residential	Nontaxable	Multi-Family	Combination	Vacant Lots
1994	\$366,805,850	\$969,329,750	\$395,178,900	\$236,278,050	\$54,823,500	\$16,418,500
1995	\$352,331,150	\$970,232,600	\$401,059,050	\$233,083,600	\$55,572,450	\$16,811,200
1996	\$355,391,500	\$970,643,700	\$403,766,550	\$231,746,400	\$55,553,850	\$16,242,750
1997	\$355,984,150	\$971,419,100	\$416,655,450	\$229,229,650	\$55,170,450	\$15,511,400
1998	\$355,661,200	\$975,080,400	\$416,323,150	\$225,954,900	\$54,543,550	\$15,289,950
1999	\$354,684,500	\$979,154,250	\$420,827,750	\$222,893,250	\$53,798,000	\$16,129,600
2000	\$351,249,500	\$989,697,750	\$413,700,500	\$221,999,250	\$53,549,650	\$16,153,050
2001	\$351,892,550	\$999,322,550	\$416,363,400	\$221,989,800	\$53,503,650	\$15,869,600
2002	\$355,698,650	\$1,006,473,450	\$414,514,750	\$222,262,450	\$54,074,200	\$15,174,000
2003	\$379,636,300	\$1,010,110,220	\$420,408,200	\$223,499,950	\$52,664,950	\$15,259,550

## Notes:

- (1) Based on building permits for new construction issued by the City Bureau of Code Enforcement and Rehabilitation.
- (2) Assessed valuations provided by the Pennsylvania STEB and the County Assessor's Office.

## CITY OF ALLENTOWN, PENNSYLVANIA

## PRINCIPAL TAXPAYERS

2003

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Value</u>	<u>Percentage of Total Assessed Valuation</u>
Agere Systems, Inc.	Electronic Manufacturing	\$ 14,233,450	0.85%
Congress Associates/ South Mountain Assoc. DePaul Realty	Apartments	9,574,250	0.57%
The Morning Call, Inc.	Newspaper	7,237,200	0.43%
Mack Trucks Inc.	Truck Manufacturing	6,813,850	0.41%
Lehigh Valley Hospital, Inc.	Hospital	6,062,750	0.36%
The Lakes	Apartments	5,961,050	0.35%
Eastern Retail Holdings LTD Partnership	Apartments	5,753,700	0.34%
Allentown Commerce Park Corp	Real Estate Investment	4,900,000	0.29%
Sharma Baldev Raj & Sudesh	Apartments	4,637,500	0.28%
Home Properties Trexler Park LLC	Apartments	<u>4,773,900</u>	0.28%
<b>Total</b>		<b><u>\$ 69,947,650</u></b>	<b><u>4.16%</u></b>

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**CITY OF ALLENTOWN, PENNSYLVANIA**

**RISK MANAGEMENT PROGRAM**

**As of December 31, 2003**

<b><u>Name of Company</u></b> <b><u>Type of Coverage</u></b>	<b><u>Policy Number</u></b>	<b><u>Policy Period</u></b>		<b><u>Deductible</u></b> <b><u>Co-Insurance</u></b>	
		<b><u>From</u></b>	<b><u>To</u></b>		
City of Allentown Self-Insured Retention	N/A	7/1/2002	6/30/2004		
Public Official Workers' Compensation	Bill No. 43-1990	7/18/1990	Until Amended	None	
Safety National Casualty St. Louis, MO 63146 Excess Workers' Compensation	SP-7486-PA	10/1/2003	10/1/2004	\$450,000	
Lexington Insurance Company (\$6 million part of \$10 million primary and \$90 million excess of \$10 million) Commercial Property Machinery Breakdown	7215635	9/15/2003	9/15/2004	\$100,000	Per occurrence except
				(1)	Flood
				(2)	Flood hazard
Allied World Assurance Company, Inc. (\$4 million part of \$10 million primary) Commercial Property Machinery Breakdown	AW7215635	9/15/2003	9/15/2004		

(1) 5% of TIV at each location with a maximum of \$100,000 per occurrence.

(2) 5% of TIV at each location with a maximum of \$1,000,000 per occurrence.

TABLE 15

<u>Liability Limits</u>	<u>Annual Premium</u>
\$500,000 aggregate limit of liability for causes of action arising out of same transaction and are within provisions of Political Subdivision Tort Claims Act 330 of 1978. <u>Unlimited</u> for claims brought in Federal jurisdiction or outside Commonwealth of Pennsylvania.	
\$450,000 per occurrence for workers' compensation	
\$100,000 per occurrence for property loss	
\$100,000 for boiler and machinery	
\$ 1,000,000 for Public Employees' Blanket Bond	
Job injury, illness, and disability coverage for Elected Officials (Mayor & City Controller only)	None
Statutory excess of underlying self-insured retention	\$98,004
\$100,000,000 per occurrence excess of underlying self-insured retention of real and personal property and subject to the following limits:	\$134,015 Total
\$50,000,000 - for Earth Movement	Property
50,000,000 - for Flood (except Zone A, V)	(Included above)
25,000,000 - for Flood (Zone A, V)	
10,000,000 - for Motor Vehicles and Mobile Equipment	
5,000,000 - for Valuable Papers	
5,000,000 - for Newly Acquired Property	
5,000,000 - for Unnamed Location	
5,000,000 - for EDP Equipment and Media	
1,000,000 - while in transit	
1,000,000 - for Fine Arts	
500,000 - for Pollutant Clean-Up	
<b>Sublimits for Boiler and Machinery:</b>	
\$500,000 - for Expediting Expense	
500,000 - for Hazardous Substance	
500,000 - for CFC Refrigerants	
500,000 - for EDP including data restoration	

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**SALARIES AND SURETY BONDING OF PRINCIPAL OFFICERS**

**2003**

<u><b>Name and Title</b></u>	<u><b>Salary</b></u>	<u><b>Surety Bonding</b></u>
Roy C. Afflerbach, Mayor	\$61,493	
David M. Howells, Sr., President, City Council	\$6,649	
Martin Velazquez, III., Vice-President, City Council	\$6,149	
David K. Bausch, Councilperson	\$6,149	
Louis J. Hershman, Councilperson	\$6,149	
Gail M. Hoover, Councilperson	\$6,149	
Julio A. Guridy, Councilperson	\$6,149	
Tom Burke, Councilperson	\$6,149	
Robert W. Brown, City Solicitor	\$43,840	
Frank J. Concannon, City Controller	\$49,892	\$1,000,000
Michael P. Hanlon, City Clerk	\$62,268	
Edwin Pawlowski, Director - Community & Economic Development	\$77,575	
Neal E. Kern, Director - Public Works	\$81,694	
Barbara W. Bigelow, Director - Finance and Human Resources	\$78,855	
Craig Long, Acting Fire Chief	\$57,783	
Stephen L. Kuhn, Police Chief	\$93,600	

Employees not covered by surety bonding are bonded by a general employee honesty blanket, position bond.

## CITY OF ALLENTOWN, PENNSYLVANIA

## LABOR FORCE

2003

(000's)

<u>Year</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
1994	47.3	43.8	3.5	7.5%
1995	51.8	48.2	3.7	7.1%
1996	51.9	48.5	3.4	6.5%
1997	51.5	48.2	3.3	6.4%
1998	51.6	48.3	3.3	5.5%
1999	50.0	47.5	2.5	4.9%
2000	50.5	48.4	2.1	4.2%
2001	52.4	49.5	2.8	5.4%
2002	54.7	50.7	3.9	7.2%
2003	57.7	54.1	3.6	6.3%

Source: Pennsylvania Bureau of Employment Security, U.S. Department of Labor

UNEMPLOYMENTAverage Unemployment Rates

<u>Year</u>	<u>City of Allentown</u>	<u>Lehigh County</u>	<u>Commonwealth of Pennsylvania</u>	<u>United States</u>
1994	7.5%	6.0%	6.2%	6.1%
1995	7.1%	5.4%	5.9%	5.6%
1996	6.5%	5.2%	5.3%	5.6%
1997	6.4%	4.7%	5.2%	4.9%
1998	5.5%	4.3%	4.6%	4.5%
1999	4.9%	4.9%	4.4%	4.2%
2000	4.2%	3.4%	4.2%	4.0%
2001	5.4%	4.2%	4.7%	4.8%
2002	7.2%	5.7%	5.7%	5.8%
2003	6.3%	5.6%	5.6%	6.0%

Source: Pennsylvania Bureau of Employment Security, U.S. Department of Labor

## CITY OF ALLENTOWN, PENNSYLVANIA

## MISCELLANEOUS STATISTICAL DATA

2003

Founded		1762
Date of original incorporation		1867
Date of first charter adoption		April, 1867
Date of present charter adoption		April, 1996
Form of government		Home Rule Charter and Optional Plans Law
Area - Square Miles	-1995	18.30
	-1971	17.89
Miles of Streets	- Paved	264.5
	- Unpaved	11
	- Alleys, Paved	133
	- Alleys, Unpaved	19
Miles of Sewers	- Sanitary	293.0
	- Storm	185.0
Miles of Water Pipe		300.00

(continued)

CITY OF ALLENTOWN, PENNSYLVANIA

MISCELLANEOUS STATISTICAL DATA

2003

Fire Protection:

Six (6) stations  
146 fire fighting employees

Police Protection

89 vehicular patrol units  
237 police officers  
19,612 law violations

Recreation:

2,020 acres of park land  
20 playgrounds (10 city, 10 school)  
One (1) municipal golf course  
Five (5) swimming pools  
Thirty-two (32) parks and other facilities maintained

Education:

Schools:	Elementary	17
	Middle	4
	Senior High School	2
	Administrative personnel and principals	56
	Teachers	1,150
	Students	16,969

Streetlights 7,757

City Employees 1,046

(continued)

## CITY OF ALLENTOWN, PENNSYLVANIA

## MISCELLANEOUS STATISTICAL DATA

2003

## Elections

## Registered voters

Last general election	54,054
Last primary election	51,540

## Votes cast in:

Last general election	13,251
Last primary election	11,001

## Percentage of registered voters voting in:

Last general election	24.5%
Last primary election	21.3%

## Population:

1980 census	103,758
1990 census	105,090
2000 census	106,632

## Retail sales:

1994	\$777,645,333
1995	\$766,124,667
1996	\$756,066,000
1997	\$838,170,667
1998	\$842,674,000
1999	\$912,750,667
2000	\$899,844,667
2001	\$959,940,000
2002	\$1,040,597,333
2003	\$1,068,921,333

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**CITY OF ALLENTOWN  
FINANCIAL MANAGEMENT POLICIES**

**OPERATING MANAGEMENT**

- General Fund revenues are sensitive to local and regional economic activity. Accordingly, revenue estimates prepared by the Administration and adopted by City Council should be conservative.
- The annual budget should continue to show fiscal restraint. An integral part of this restraint is the creation of a positive cash balance (surplus) in the General Fund at the end of the fiscal year. If necessary, spending during the fiscal year should be reduced sufficiently to create such a cash surplus.
- The annual budget should continue to be prepared, adopted and maintained in such a manner as to avoid the following situations:
  - 1) Two consecutive years of operating fund deficits.
  - 2) A current operating fund deficit greater than the previous year.
  - 3) An operating fund deficit in two or more of the last five years.
  - 4) An abnormally large deficit in any one year of more than 5 to 10 percent of net operating revenues.
- The City liquidity position (the extent to which cash and other assets are available to pay short-term obligations) should show a working capital surplus; i.e., cash and short-term investments should exceed current liabilities.
- When deficits appear to be forthcoming, the City should avoid the use of "fiscal mirrors" in order to balance the budget. Only three alternatives are available: reduce appropriations, increase revenues, or a combination of the two techniques.
- The City should continue to pursue a prudent but aggressive cash management and investment program, in order to meet daily cash requirements, increase the amount available for investment, and earn the maximum rate of return on invested funds.
- All retirement plans should continue to be funded and administered in accordance with the City's Pension Recovery Ordinance and State Act 205 of 1984.
- Contingency reserves should be maintained at a level sufficient to provide for unanticipated expenditures of a nonrecurring nature. The City will strive to maintain a fund balance at a level at least equal to five percent (5%) of budgeted expenditures.
- Insurance reserves should be maintained at a level which, together with purchased insurance policies, adequately indemnifies the City's assets and officers/employees against loss.
- The City should minimize the financial burden on the City's taxpayers through periodic systematic program reviews and evaluations aimed at improving the efficiency and effectiveness of City programs. These periodic reviews should consider past trends and experiences elsewhere, and revisions to annual policy guidelines should be based on current need and program efficiency. Such

information should be crucial to the preparation of the annual budget.

- The City should maintain a budget that provides for adequate maintenance of the City's infrastructure and equipment stock and for their timely repair and/or replacement.
- Grant applications to fund new service programs with State or Federal funds should be reviewed by the City, with significant consideration given to whether locally-generated funds will be required to support these programs when original funding is no longer available.
- The City will continually oppose and discourage programs and actions by the State Legislature which would mandate cost increases to City government without providing an equal amount of state supplied revenue to offset such mandated increases.
- All fee schedules and enterprise/user charges should be reviewed and adjusted periodically to ensure that rates are equitable and cover the total cost of the service or that portion of the total cost deemed appropriate by the City.
- The Allentown Parking Authority should prepare an annual budget that is self-supporting. An integral part of that budget is the payment of debt service by current revenues, and the establishment of a revenue structure that ensures such payment without the assistance of City funds.

#### CAPITAL AND DEBT MANAGEMENT

- Any capital project financed through the issuance of general obligation bonds should be financed for a period not to exceed the expected life of the project up to a maximum of twenty years.
- The Comprehensive Plan of the City of Allentown should be used to help evaluate the projects in the Capital Improvements Program.
- The Capital Improvements Program should reflect the relationship between the City's planning and budgeting processes, wherein the planning effort defines the City's anticipated capital facility needs and the budgeting effort defines the financial parameters of sound capital expenditure policies to meet those needs.
- Bond sales should be planned and structured in order to maintain or improve the City's bond rating and to obtain interest rates at or below the published bond yield averages for bonds of similar ratings.
- The schedule of capital facility improvements should be developed in such a manner as to level the City's annual debt service payments to the maximum extent possible and to minimize fluctuations in tax rates caused by debt-financed capital improvements. An attempt should be made to restrict annual general obligation bond issues to \$3-\$3.5 million.
- Short-term debt outstanding at the end of the fiscal year should not exceed five percent (5%) of operating revenues.
- The City should use short-term financing such as revenue and bond anticipation notes to provide temporary financing for improvement projects or land acquisition, only when market conditions warrant such action.

- Net direct debt should be maintained below \$1,000 per capita.
- Net direct debt per capita should not exceed ten percent (10%) of per capita personal income.
- The level of net direct debt should not exceed fifty percent (50%) of the State mandated legal debt limit for the City.
- Debt service payments should not exceed ten percent (10%) of governmental fund expenditures, in order to minimize the impact on tax rates while providing for the normal replacement of public facilities.
- A portion of the Capital Improvements Program should be supplemented with City provided services ("IN-KIND").
- The City will establish water and sewer rates and charges to provide net operating revenues at least equal to 1.3 times debt service on the City's water and sewer bonds.

#### ACCOUNTING, AUDITING AND FINANCIAL PLANNING

- The City should maintain the highest level accounting practices. Accounting systems should be maintained in order to facilitate financial reporting in conformance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA), and the Financial Accounting Standards Board (FASB).
- An annual audit should be performed as required by various bond indentures by an independent public accounting firm in accordance with generally accepted auditing standards.
- Full disclosure should be provided in the Comprehensive Annual Financial Report, Official Statements and all other financial reports.
- Financial systems should be maintained to monitor expenditures, revenues and performance of all municipal programs on an ongoing basis.
- Operating expenditures should be programmed to include the cost of implementing capital improvements.
- The City should institute a "trained-observer" Capital Plant Assessment process, in order to evaluate and monitor the condition of its major physical assets.

#### COMMUNITY NEEDS AND RESOURCES

- The City should continue to diversify and stabilize its economic base in order to protect the community against economic downturns and to take advantage of economic upswings.
- The City should continue its joint private/public economic development efforts to "market" Allentown as a desirable place to do business.

- The City should continue to encourage economic development activities that provide growth in the City's tax base and employment opportunities for City residents. In those cases where it is not realistic to locate the activity within Allentown, the City will work with other economic development organizations to find an appropriate location in Lehigh County or the Lehigh Valley.

**ALLENTOWN PARKING AUTHORITY**

**FINANCIAL REPORT**

**December 31, 2003**

**Buckno Lisicky & Company**

**CERTIFIED PUBLIC ACCOUNTANTS**  
**A Professional Corporation**

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# Buckno Lisicky & Company

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Allentown Parking Authority  
Allentown, Pennsylvania

We have audited the accompanying financial statements of the Allentown Parking Authority (a component unit of the City of Allentown) as of December 31, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Allentown Parking Authority as of December 31, 2003 and 2002, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as of December 31, 2003.

The management's discussion and analysis and pension data on pages 2 through 9 and page 32, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Allentown, Pennsylvania  
March 25, 2004

*Buckno Lisicky & Company*

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended December 31, 2003**

**Introduction**

The Allentown Parking Authority hereafter referred to as "APA," presents its Annual Financial Statements for the fiscal year ended December 31, 2003, which is developed in compliance with Statement of Governmental Accounting Standard No. 34. (hereafter "GASB 34"). Although GASB 34 did not require implementation by the APA until fiscal year 2004, the management staff elected early implementation to provide the reader with enhanced financial information and to facilitate the incorporation of its financial data as a component unit into the City of Allentown financial statements.

**Financial Highlights**

- Total operating revenue decreased \$238,454 or 5.6% compared to 2002.
- Total operating expenses increased \$182,403 or 6.6% compared to 2002.
- The APA completed its commitment to the Allentown Arts Walk Project by reconstructing both our Sixth Street Parking Lot and Sovereign Plaza. The funds committed to this project totaled \$1.1 million, which included no borrowed monies. Grants totaling \$427,178 helped to reduce the APA's direct costs.
- Taking advantage of the near 40-year low interest rates, the APA refinanced \$4.9 million of outstanding debt on November 13, 2003, resulting in the savings of \$408,000 over the pre-existing thirteen years of debt.
- Contributions by the APA to the City of Allentown for Allentown Police issued parking tickets totaled \$211,950 for 2003 or an increase of \$42,695. These monies contributed to the City are reduced by administrative costs that are incurred by the APA.
- Outstanding liabilities of the APA decreased \$733,859 or 6.5% as compared to fiscal 2002.
- The net assets (difference between the assets and liabilities) of the APA increased \$810,007 or 22.6% as compared to 2002.

**Overview of the Financial Statements**

The Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the audited financial statements, notes to the financial statements and supplementary information. The MD&A represents management's examination and analysis of the APA's financial condition and performance.

**Required Financial Statements**

The financial statements of the APA report information about the APA's use of full accrual accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The financial statements include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; notes to the financial statements; and both required and other supplementary information.

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended December 31, 2003**

The **balance sheet** includes all of the APA's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the APA's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure and assessing the liquidity and financial flexibility of the APA.

While the balance sheet provides financial information regarding the nature and amount of resources and obligations at year-end, the **statement of revenues, expenses and changes in net assets** presents the results of the business activities over the course of the past year and can be used to determine whether the APA has successfully recovered all its costs through parking fines and parking fees.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operational, nonfinancing, financing and investing activities. In simpler terms, the primary purpose of this statement is to provide information about the APA's cash receipts and cash payments during the fiscal year.

Finally, **notes to the financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the financial statements. The notes present information about the APA's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. **Supplementary information** comparing budget to actual expenses is also provided.

#### **Summary of Organization and Business**

The APA began operating as a Municipal Parking Authority on January 1, 1985 for the benefit of the City of Allentown. The Authority manages, supervises and administers both on-street and off-street operations within the confines of the City.

The on-street operation of the APA includes the enforcement of both City and State parking regulations by the issuance and processing of parking tickets and by the towing, booting and impounding of vehicles. In addition to the enforcement activities, the APA administers a residential parking permit program which allows residents to park in their respective neighborhood without having to "feed" a meter or move their vehicle due to time parking restrictions. The final composition of the on-street operation includes the maintenance and regulation, as well as the collection of monies, from approximately 1,500 parking meters located on the City streets.

The ownership and operation of three parking garages in downtown Allentown comprises the majority of the off-street department. These three garages total approximately 1,600 parking spaces. In addition, the APA owns and operates 33 surface parking lots and one parking ramp, which total another 1,400 parking spaces.

The APA receives no financial support from the City and has no taxing power. All revenues are derived from the collections of parking fines, meter revenue and user fees from the parking garages and lots. The APA, since its inception, has been self-supporting and has never needed any outside financial funding.

#### **Financial Analysis**

The following comparative financial statements and other selected information serve as the key financial data and indicators for management, monitoring and planning. The Balance Sheet and the Statement of

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2003

Revenues, Expenses and Changes in Net Assets report information about the APA's fiscal year activities, which can then be used to determine whether the APA is better or worse off as a result of these activities.

**Net Assets**

**Condensed Statements of Net Assets  
(Balance Sheet)**

	2003	2002	\$ Change	% Change
Current and other assets	\$ 1,518,937	\$ 2,073,679	\$ (554,742)	(26.8%)
Capital assets	13,449,671	12,818,781	630,890	4.9%
Total assets	<u>14,968,608</u>	<u>14,892,460</u>	<u>76,148</u>	<u>0.5%</u>
Current liabilities	1,427,964	1,902,218	(474,254)	(24.9%)
Long-term debt	9,149,266	9,408,871	(259,605)	(2.8%)
Total liabilities	<u>10,577,230</u>	<u>11,311,089</u>	<u>(733,859)</u>	<u>(6.5%)</u>
Invested in capital assets, net of related debt	3,242,457	1,674,198	1,568,259	93.7%
Unrestricted	1,148,921	1,907,173	758,252	(39.8%)
Total net assets	<u>\$ 4,391,378</u>	<u>\$ 3,581,371</u>	<u>\$ 810,007</u>	<u>22.6%</u>

Looking at the above table, you can see that total net assets (assets available to finance both capital and day-to-day operations) increased \$810,007. This increase is reflective of funds invested primarily in the Arts Walk Project under the line item of "capital assets." Since this project was completed using cash and investments of the APA, current assets show a reduction of \$554,742. During the year no new debt was issued, and coupled with scheduled principal repayments on current debt, both current and long-term debt was decreased a total of \$733,859.

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended December 31, 2003

**Condensed Statements of Revenues, Expenses  
And Changes in Net Assets**

	2003	2002	\$ Change	% Change
<b>Revenues:</b>				
Operating revenues	\$ 4,031,354	\$ 4,269,808	\$ (238,454)	(5.6%)
Non-operating revenues	42,737	59,588	(16,851)	(28.3%)
Capital Grant Revenue	427,178	-	427,178	NA
Total revenues	<u>4,501,269</u>	<u>4,329,396</u>	<u>171,873</u>	<u>4.0%</u>
<b>Expenses:</b>				
Depreciation expense	644,968	595,019	49,949	8.4%
Other operating expense	2,301,770	2,169,316	132,454	6.1%
Non-operating expense	532,574	578,768	(46,194)	(8.0%)
Contributions to City	211,950	169,255	42,695	25.2%
Total expenses	<u>3,691,262</u>	<u>3,512,358</u>	<u>178,904</u>	<u>5.1%</u>
Change in net assets	810,007	817,038	(7,031)	(0.9%)
Beginning net assets, as restated	<u>3,581,371</u>	<u>2,764,333</u>	<u>817,038</u>	<u>29.6%</u>
Ending net assets	<u>\$ 4,391,378</u>	<u>\$ 3,581,371</u>	<u>\$ 810,007</u>	<u>22.6%</u>

**Statement of Revenues, Expenses and Changes in Net Assets**

The Statement of Revenues, Expenses and Changes in Net Assets provides answers as to the nature and source of the changes in the Balance Sheets. The above table reconciles total revenue of \$4,501,269 less total expenses of \$3,691,262 as the difference or positive change of \$810,007 in net assets for the year. The following narrative will explain the individual accounts that affect these changes.

**Revenues:**

Overall total revenues increased by \$171,873 to \$4,501,269 in 2003 up from \$4,329,396 in 2002. It should be pointed out that this increase includes the award of grant revenue of \$427,178, which was used exclusively for the Arts Walk capital improvements. A closer look reveals that "Operating Revenues" for 2003 actually decreased \$238,454, which can be attributed to the declines in both our off-street and on-street operations.

Off-street revenue is comprised of basically three categories. Transient revenue which is generated from parkers that pay a daily rate; contract parkers that pay a monthly rate (usually downtown employees); and Crowne Plaza Hotel parking which includes parking paid by hotel guests or by the hotel directly at our Walnut at Ninth Garage. Contract revenue from all of our parking garages and lots decreased \$109,950 from 2002 as a result of the loss of PPL employee parkers. PPL completed the construction of a 1,000-space garage in the spring of 2003, which resulted in the transfer of most of their employees parking from our facilities. Hotel parking at our Walnut at Ninth Parking Garage decreased over \$19,000 or 23.4% from that of last year as the Hotel was in the midst of a capital renovation plan and management transition.

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended December 31, 2003**

Transient revenue cumulative for all lots and facilities remained pretty much consistent with 2002 decreasing only \$11,372.

On-street revenue decreased by \$94,690 to \$2,805,386 in 2003. On-street revenue includes the revenue collected from parking meters, payments for parking tickets and parking permits. Parking meter revenue decreased \$13,887 due to various construction projects in the City that required the removal or vacation of parking spaces. A full year's use of our hand held ticket-writing system coupled with a smaller enforcement staff contributed to a reduction in parking ticket revenue by \$80,843 to \$2,136,132. In 2003 a total of 99,000 tickets were written versus 107,100 in 2002. Although the hand held ticket writer saves administrative time and reduces costs in our collections process, we have observed that the writing and printing of the ticket on the street by the officer takes longer than manual issuance of a ticket. The process of "chalking" of tires is much more efficient with the ticket writers but doubles the entry time.

The two components of non-operating revenues are investment earnings and realty rentals. Non-operating revenue was \$16,851 less than that of 2002 predominately as a result of decreased investment earnings. Historically low interest rates coupled with less available investment funds overall, caused this reduction. The average funds available for investment for 2003 were \$463,200 less than 2002. Average investment rates were approximately sixty (0.60%) basis points less.

**Capital Contribution Revenue:**

Grant income totaling approximately \$427,200 has been received and accrued for 2003 to offset the capital expenses associated with the Arts Walk Project being constructed in downtown Allentown. Funds totaling \$327,200 were received from the First Union Regional Foundation with the remaining \$100,000 to be received in 2004 from the City of Allentown. The APA has completed its portion of the project, which includes our Sixth Street Parking Lot and Sovereign Plaza walkway.

**Expenses:**

Total expenses increased to \$3,691,262 in 2003, which is a \$178,904 increase from 2002. Operating expenses experienced the largest increase of over \$132,000.

**Operating Expenses:**

The direct costs associated with the overall administration and operation of the APA is included in "operating expenses." Three expense categories that comprise operating expenses are personnel wages and benefits, services and charges and material and supplies.

Personnel costs make up over 76% of the costs associated with operating expenses. These costs increased \$92,312 to \$1,752,875 as compared to 2002. Items affecting this increase include the cost of funding both the management and union pension plans, which totaled \$45,357 more than 2002; additional salary and wage increases totaling \$34,465 and workers' compensation insurance premium increases of \$9,186. Overall these costs increased 5.6% as compared to 2002.

Services and charges, the second largest component of operating expenses, increased \$29,597 to \$513,439. A few of the major contributors to this increase include repair and expenses for APA equipment, which increased \$18,261 to \$116,340 due mostly to additional vehicle repairs and the write-off of engineering fees associated with a moth balled parking garage. Snow plowing and removal costs more

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended December 31, 2003**

than doubled from \$14,439 in 2002 to \$31,102 in 2003. The past winter operations required more plowing and the extensive costs of both the removal and shuttling of snow from various parking structures. Printing expenses were reduced \$12,116 as a result of the approval of electronic filing of State Citations with the District Magistrate. Prior to this event, the APA was required to print a 6-part citation for each unpaid ticket. Additionally, our 3-part Notice of Outstanding Ticket form was replaced with a single piece of paper.

Materials and supplies, the third and smallest component of operating expenses increased \$10,545 to \$35,456 for 2003. Equipment supplies increased \$5,600 as mostly a result on the implementation of GASB 34, which requires a minimum dollar threshold for capitalization. In accordance with this requirement, the APA has implemented a \$5,000 minimum capitalization policy. A number of equipment supply items purchased this year would have been capitalized in prior years; however, this year they have been expensed. Additionally, uniform expenses for both our on-street and off-street employees increased \$2,688 to \$6,859 due to uniform replacement expenses.

**Depreciation Expense:**

Depreciation expense reflects the annual cost associated with an assets reduction (wear and tear) in value. Expenses associated with depreciation increased approximately \$50,000 to \$645,000 for 2003. The full year depreciation of the hand held ticket writers and associated office software accounted for \$22,600 of this increase. The added cost of new elevators at the Walnut at Ninth Garage added an additional \$21,000 to this expense. Compared to 2002, depreciation for 2003 increased 8.4%.

**Non-operating Expense:**

For 2003, non-operating expenses decreased approximately \$46,200 to \$532,600. These expenses are those associated with borrowing and debt costs. Interest expenses declined for 2003 as a result of lower variable interest rates on some loans and the refinancing of other outstanding debt.

**Contribution Expense:**

Annually, with the mutual consent of both the City and the APA, monies collected by the APA for police issued parking tickets are remitted to the City in the form of a contribution. This amount for 2003 totaled approximately \$212,000, which was \$42,700 more than last year. Payments are made each quarter with the APA deducting administrative costs associated with the collections process.

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended December 31, 2003**

**Capital Assets:**

The operation of the APA requires various capital assets to run both efficiently and effectively. The following table depicts the various asset classes that the APA owns and uses.

**Capital Assets**

	2003	2002	\$ Change	% Change
Land	\$ 4,651,586	\$ 4,651,586	\$ -	0.0%
Lot Improvements	2,002,283	933,804	1,068,479	114.4%
Buildings and improvements	803,032	803,032	-	0.0%
Parking garages and lots	9,412,446	9,079,244	333,202	3.7%
Vehicles and equipment	1,027,746	934,778	92,968	9.9%
Construction in progress	126,072	317,081	(191,009)	(60.2%)
Subtotal	<u>18,023,165</u>	<u>16,719,525</u>	<u>1,303,640</u>	<u>7.8%</u>
Less accumulated depreciation and amortization	4,709,415	4,113,977	595,438	14.5%
Net Capital Assets	<u>\$ 13,313,750</u>	<u>\$ 12,605,548</u>	<u>\$ 708,202</u>	<u>5.6%</u>

As of December 31, 2003, the APA had invested \$13,313,750 in capital assets net of accumulated depreciation and amortization. This figure increased from 2002 by \$708,202 as a result of the following acquisitions, project completions and adjustments to assets during the year.

- \$1,068,479 for the capital costs associated with the completion of the Arts Walk Project.
- \$333,201 for structural and maintenance improvements to both the 600 Linden and Walnut at Ninth Parking Garages.
- \$80,000 for the development and implementation of our website.
- \$38,405 for the purchase of a 2004 Chevrolet pickup truck with a snowplow and a 2003 Chevrolet Cavalier for on-street enforcement.
- \$25,436 for the write-off of computer hardware, office equipment and the sale of a 1990 Ford pickup truck.
- \$126,072 for the initial startup costs associated with the Allentown Performance and Education Center located in the lower level of the Hess's Parking Garage.
- \$317,081 from 2002, which was capitalized and became part of the Arts Walk Project Costs.

**Debt Administration:**

Total outstanding debt of the APA as of December 31, 2003, totaled \$10,457,738, which is \$796,541 less than 2002. This decrease in debt was due to principal payments made during the year and with no issuance of any additional debt. More specific information regarding this debt may be viewed in the financial statements in Notes 6 and 7.

Both bond issues are secured by a pledge of APA's revenues. Additionally, each issue is secured by a City of Allentown guarantee with a further commitment of bond insurance through Ambac Assurance

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended December 31, 2003**

Corporation. All issues carry an Aaa and AAA ratings from Moody's and Standard & Poor's respectively based upon this municipal bond insurance policy.

In addition to restrictions placed on additional debt issuance by bond covenants, the APA has instituted a financial policy that provides minimum net earnings ratio coverage. This policy, on an annual basis, requires that all pledged revenue from the APA less operating expenses exceeds debt service by at least 20.0%. The following chart depicts the compliance of the APA to this policy over the past two years.

**Debt Coverage Ratio:**

	<b>2003</b>	<b>2002</b>	<b>% Change</b>
Gross revenue	\$ 4,074,091	\$ 4,329,396	(5.9%)
Total operating expenses (less depreciation)	2,301,770	2,169,316	6.1%
Net revenue	1,772,321	2,160,080	(18.0%)
Annual debt service	1,370,985	1,469,446	(6.7%)
Debt service coverage	<u>1.29%</u>	<u>1.47%</u>	<u>(12.2%)</u>

**Contacting the APA's Financial Management**

This financial report is designed to provide our bondholders, patrons, creditors and other interested parties with a general overview of the APA's finances and demonstrates the APA's accountability for the funds it receives. If you have any questions about this report or require additional financial information, contact the Allentown Parking Authority's Finance Director, 1005 Hamilton Street, P.O. Box 4466, Allentown, PA 18105-4466.

ALLENTOWN PARKING AUTHORITY

BALANCE SHEETS  
December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 541,610	\$ 1,152,494
Certificates of deposit	600,000	800,000
Accounts receivable	249,871	57,482
Accrued interest receivable	953	1,656
Inventory	17,768	10,343
Prepaid expenses	<u>97,314</u>	<u>50,553</u>
Total current assets	1,507,516	2,072,528
<b>CAPITAL ASSETS, net of accumulated depreciation</b>	13,313,750	12,605,548
<b>DEFERRED CHARGES, net of accumulated amortization</b>	135,921	213,233
<b>OTHER ASSETS</b>	11,421	1,151
Total assets	<u>\$ 14,968,608</u>	<u>\$ 14,892,460</u>

See Notes to Financial Statements.

	<u>2003</u>	<u>2002</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 266,464	\$ 116,112
Accrued expenses	196,123	198,561
Note payable, bank	-	660,368
Bonds payable	899,037	850,565
Capital lease obligations	22,990	11,546
Other current liabilities	43,350	65,066
	<u>1,427,964</u>	<u>1,902,218</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds payable	9,129,518	9,395,374
Capital lease obligations	19,748	13,497
	<u>9,149,266</u>	<u>9,408,871</u>
Total noncurrent liabilities	<u>9,149,266</u>	<u>9,408,871</u>
Total liabilities	<u>10,577,230</u>	<u>11,311,089</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,242,457	1,674,198
Unrestricted	1,148,921	1,907,173
	<u>4,391,378</u>	<u>3,581,371</u>
Total net assets	<u>4,391,378</u>	<u>3,581,371</u>
Total liabilities and net assets	<u>\$ 14,968,608</u>	<u>\$ 14,892,460</u>

**ALLENTOWN PARKING AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS**

**Years Ended December 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
<b>OPERATING REVENUE</b>		
On-street parking	\$ 2,805,386	\$ 2,900,076
Garages and lots	<u>1,225,968</u>	<u>1,369,732</u>
Total operating revenue	<u>4,031,354</u>	<u>4,269,808</u>
<b>OPERATING EXPENSES</b>		
Wages and benefits	1,752,875	1,660,563
Services and charges	513,439	483,842
Materials and supplies	35,456	24,911
Depreciation and amortization	<u>644,968</u>	<u>595,019</u>
Total operating expenses	<u>2,946,738</u>	<u>2,764,335</u>
Operating income	<u>1,084,616</u>	<u>1,505,473</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Interest income	26,517	43,494
Interest expense	(526,359)	(572,248)
Trustee fees	(3,565)	(6,520)
Realty income	16,220	14,816
Gain (loss) on disposal of assets	<u>(2,650)</u>	<u>1,278</u>
Total nonoperating revenue (expenses)	<u>(489,837)</u>	<u>(519,180)</u>
Income before contributions	594,779	986,293
Capital contributions	427,178	-
Contributions to City of Allentown	<u>(211,950)</u>	<u>(169,255)</u>
Change in net assets	<u>810,007</u>	<u>817,038</u>
<b>NET ASSETS, beginning of year</b>	3,581,371	2,473,188
Adjustment for application of GASB Statement No. 34	<u>-</u>	<u>291,145</u>
<b>NET ASSETS, as restated</b>	<u>3,581,371</u>	<u>2,764,333</u>
<b>NET ASSETS, end of year</b>	<u>\$ 4,391,378</u>	<u>\$ 3,581,371</u>

**ALLENTOWN PARKING AUTHORITY**

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 4,031,263	\$ 4,264,875
Payments to employees	(1,767,449)	(1,652,325)
Payments to suppliers	<u>(577,904)</u>	<u>(506,460)</u>
Net cash provided by operating activities	<u>1,685,910</u>	<u>2,106,090</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Contributions to City of Allentown	<u>(197,082)</u>	<u>(170,180)</u>
Net cash used in noncapital financing activities	<u>(197,082)</u>	<u>(170,180)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(1,285,730)	(521,613)
Proceeds from sale of capital assets	801	19,069
Capital contributions	327,178	-
Principal payments on bond payable	(5,123,868)	(830,555)
Principal payments on short-term notes payable	(660,368)	(75,000)
Principal payments on capital lease obligations	(15,912)	(9,857)
Proceeds from bonds payable	4,970,000	-
Financing costs	(38,489)	(12,365)
Interest paid	(510,574)	(554,072)
Trustee fees	<u>(6,190)</u>	<u>(6,520)</u>
Net cash used in capital and related financing activities	<u>(2,343,152)</u>	<u>(1,990,913)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of certificates of deposit	1,300,000	796,000
Purchase of certificates of deposit	(1,100,000)	(800,000)
Investment income	27,220	43,988
Realty income	<u>16,220</u>	<u>14,816</u>
Net cash provided by investing activities	<u>243,440</u>	<u>54,804</u>

**ALLENTOWN PARKING AUTHORITY**

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
Net decrease in cash and cash equivalents	(610,884)	(199)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,152,494</u>	<u>1,152,693</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 541,610</u>	<u>\$ 1,152,494</u>
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 1,084,616	\$ 1,505,473
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	27,545	20,446
Depreciation	617,423	574,573
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	9,025	(4,437)
Inventory	(7,425)	(376)
Prepaid expenses	(44,136)	(4,268)
Increase (decrease) in liabilities:		
Accounts payable	19,409	10,201
Accrued expenses	1,169	3,610
Other current liabilities	<u>(21,716)</u>	<u>868</u>
Net cash provided by operating activities	<u>\$ 1,685,910</u>	<u>\$ 2,106,090</u>
 <b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Purchase of capital assets through issuance of note payable	<u>\$ -</u>	<u>\$ 485,368</u>
Purchase of vehicles through capital lease obligations	<u>\$ 33,607</u>	<u>\$ 34,900</u>

## ALLENTOWN PARKING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Summary of Significant Accounting Policies

##### Description of entity:

The Allentown Parking Authority (the Authority), a tax-exempt organization, was incorporated on November 30, 1984 by the City Council of the City of Allentown. The Authority is governed by a five member board appointed by the Mayor of the City of Allentown. The Authority is a component unit of the City of Allentown reporting entity. The Authority's purpose is to administer, supervise, and enforce an efficient system of off-street and on-street parking including the power and right:

- To conduct research and maintain data related to off-street and on-street parking programs;
- To enforce parking regulations by the distribution, issuance, and processing of parking tickets and by booting, towing and impounding of vehicles as provided by law;
- To acquire, locate, install and maintain parking meters and related supplies;
- To administer a program of residential permit parking as provided by law; and
- To collect, on behalf of the City of Allentown, all revenue, subject to certain return provisions, derived from on-street parking programs.

The accounting policies of the Allentown Parking Authority conform to generally accepted accounting principles as established by the Governmental Accounting Standards Board. The following is a summary of the significant policies:

##### Basis of presentation and accounting:

The Authority's financial statements are presented on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e.,

# ALLENTOWN PARKING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities" and "unrestricted" components.

### Cash and cash equivalents:

For the purposes of the statement of cash flows, the Authority considers all highly liquid investments, including investments in external investment pools, with an original maturity of three months or less to be cash equivalents.

### Investments, external investment pools, certificates of deposit:

The Authority invests its idle funds in various instruments, including external investment pools, which invest in government secured instruments, certificates of deposit with federally-insured financial institutions and money market funds. The investments are valued at fair value, except for those that have a remaining maturity at the time of purchase of one year or less, which are valued at amortized cost. The Authority's investment in external investment pools and money market funds are stated at fair value, which approximates cost and is classified as cash and cash equivalents on the balance sheet. The Authority's investment in certificates of deposit in federally-insured financial institutions are valued at cost because they are considered non-negotiable, non-participating contracts for which redemption terms do not consider market rates.

### Inventory:

Inventory consists of parking meters and their related components and is stated at cost (first-in, first-out).

### Property and equipment:

The Authority capitalizes all assets with an estimated useful life in excess of one year in excess of \$5,000. Property and equipment are stated at cost, net of accumulated depreciation. Donated or contributed assets are stated at the estimated fair market value as of the date of donation. The Authority depreciates assets using the straight-line method over the following estimated useful lives:

Land improvements	10-44 years
Parking garages and components	5-45 years
Equipment and vehicles	3-20 years

Normal maintenance and repairs are charged to operations as incurred. Renewals and betterments are capitalized and depreciated based upon the expected life of such improvements. Amortization of assets under capital lease has been included as part of depreciation expense.

### Deferred charges:

Bond issuance costs have been deferred and are amortized using the straight-line method over the term of the related debt.

# ALLENTOWN PARKING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### Compensated absences:

Vacation pay for both salaried and union employees is based on length of service and accrues as of each employee's anniversary date. Sick pay for both salaried and union employees is based on 8 days per calendar year for the years ended December 31, 2003 and 2002. The compensation policy includes a buy back provision for unused sick days as of December 31 of any calendar year. Provisions for vacation and sick pay are recorded on the accrual basis.

### Net assets:

Net assets are comprised of the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified into two components: invested in capital assets, net of related liabilities and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets. Unrestricted consists of all other net assets not included in the above category.

### Revenues and expenses:

Operating revenues and expenses consist of those revenues and expenses that result from the principal operations of the Authority. Operating revenues consist of primarily charges to users of parking facilities. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities.

### Capital contributions:

Contributions, which include capital grants, are recognized in the Statement of Revenues, Expenses and Changes in Net Assets when earned.

### Use of estimates:

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.

### Reclassifications:

Certain items in the 2002 financial statements have been reclassified to conform to the 2003 financial statement presentation.

### Note 2. Change in Accounting Principle

The Authority has implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* during the year

## ALLENTOWN PARKING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

ended December 31, 2003.

GASB Statement No. 34 required certain changes in terminology, format and content of the financial statements, as well as inclusion of the management's discussion and analysis as required supplementary information.

The Authority has restated its beginning net assets as of January 1, 2002 to reflect the effects of implementing GASB Statement No. 34. Net assets as of January 1, 2002 have been increased by \$291,145 to reflect the reclassification of previously recorded contributed capital as unrestricted net assets.

#### Note 3. Cash and Investments

The deposit and investment activity of the Authority adheres to state statutes, prudent business practices and applicable trust indentures, which are more restrictive than existing state statutes.

Pennsylvania law stipulates the investment and deposit types the Authority may purchase as follows:

- (a) U.S. Treasury bills.
- (b) Short-term obligations of the U.S. government or its agencies.
- (c) Demand, savings and time deposits with institutions insured by Federal insurance or collateralized with securities as provided by law.
- (d) Obligations of the United States or any of its agencies, the Commonwealth of Pennsylvania or any of its agencies or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies providing the obligations are backed by the full faith and credit of the political subdivisions.

There are no deposit or investment transactions during the years ended December 31, 2003 and 2002 that were in violation of state statutes or applicable trust indentures.

#### Deposits:

The deposits of the Authority as of December 31, 2003 and 2002 are categorized below to indicate the level of risk assumed. With respect to risk, the deposit balances are classified as follows:

- Category 1: Insured or registered, with securities held by Allentown Parking Authority or its agent in the Authority's name.
- Category 2: Uninsured and unregistered, with securities held by the counter party's trust department or agent in Allentown Parking Authority's name.
- Category 3: Uninsured and unregistered, with securities held by the counter party's trust department or agent, but not in Allentown Parking Authority's name.

**ALLENTOWN PARKING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

	2003			
	Category		Total Bank Balance	Carrying Value
	1	3		
Cash, demand and savings deposits	\$ 200,100	\$ 100,101	\$ 300,201	\$ 244,747
Certificates of deposit	<u>600,000</u>	<u>-</u>	<u>600,000</u>	<u>600,000</u>
	<u>\$ 800,100</u>	<u>\$ 100,101</u>	<u>\$ 900,201</u>	<u>\$ 844,747</u>

	2002			
	Category		Total Bank Balance	Carrying Value
	1	3		
Cash, demand and savings deposits	\$ 200,100	\$ 232,878	\$ 432,978	\$ 289,910
Certificates of deposit	<u>800,000</u>	<u>-</u>	<u>800,000</u>	<u>800,000</u>
	<u>\$1,000,100</u>	<u>\$ 232,878</u>	<u>\$ 1,232,978</u>	<u>\$ 1,089,910</u>

The Category 3 amounts consist of balances in excess of FDIC insurance coverage. Pennsylvania statutes require individual banks to maintain a pool of collateral to cover the amount on deposit by governmental entities in excess of FDIC coverage.

**External investment pools:**

The Authority is a member of the Cadre Institutional Investors Trust (CIIT), which is a SEC registered municipal external investment pool. The purpose of the pool is to allow municipalities to enhance investment potential through cash pooling while providing security and liquidity. Pool participants are allocated a pro-rata share of each investment purchased by the pool. U.S. Treasuries, placed in the name of CIIT, serve as collateral and are held in safekeeping at US Bank. Funds in the CIIT money market account are totally liquid with no advance notice required for withdrawal.

The Authority has an agreement with Pennsylvania Treasury Department to pool funds to enhance interest earnings. The INVEST program allows Pennsylvania municipalities to utilize the investment expertise of Treasury personnel to purchase investments with other local governmental units. Because of the large volume of money invested, the longer average investment maturity and low administrative charges; the State is able to provide a high rate of return. Funds deposited in the INVEST program require either one or ten day's notice for withdrawal. The INVEST pool is not SEC regulated. The investment policy of INVEST is guided by Pennsylvania statute for respective shareholder participants. The policy is consistent with investment criteria for a "AAA" rating from the Standard and Poors and Fitch rating agencies. An oversight committee comprised of the State Treasurer, the State Secretary of the

**ALLENTOWN PARKING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

Budget and the State House of Representatives Majority and Minority Chairmen together with three independent third party investment experts provide investment advice and strategies to be utilized by the INVEST program. The fair value of the Authority's position in the INVEST pool is the same as the value of the pool shares.

As of December 31, 2003 and 2002, the carrying amounts of external investment pool assets were \$296,863 and \$862,584, respectively. The fair value of external investment pool assets approximate their carrying values as of December 31, 2003 and 2002. As required by the Governmental Accounting Standards Board, investments in external investment pools are uncategorized with regard to risk and are not included in the preceding tables.

**Note 4. Capital Assets**

Capital asset activity for the years ended December 31, 2003 and 2002 is as follows:

	Year Ended December 31, 2003			
	Balance	Additions	Deletions	Balance
	Jan. 1, 2003			Dec. 31, 2003
Land	\$ 4,651,586	\$ -	\$ -	\$ 4,651,586
Lot improvements	933,804	1,068,479	-	2,002,283
Building and building improvements	803,032	-	-	803,032
Parking garages and lots	9,079,244	333,202	-	9,412,446
Vehicles and Equipment	934,778	118,404	25,436	1,027,746
Construction in progress	317,081	-	191,009	126,072
	<u>16,719,525</u>	<u>1,520,085</u>	<u>216,445</u>	<u>18,023,165</u>
Less accumulated depreciation	<u>4,113,977</u>	<u>617,423</u>	<u>21,985</u>	<u>4,709,415</u>
	<u>\$ 12,605,548</u>	<u>\$ 902,662</u>	<u>\$ 194,460</u>	<u>\$ 13,313,750</u>

	Year Ended December 31, 2002			
	Balance	Additions	Deletions	Balance
	Jan. 1, 2002			Dec. 31, 2002
Land	\$ 4,175,427	\$ 476,159	\$ -	\$ 4,651,586
Lot improvements	933,804	-	-	933,804
Building and building improvements	803,032	-	-	803,032
Parking garages and lots	9,015,906	63,338	-	9,079,244
Vehicles and Equipment	743,325	244,912	53,459	934,778

**ALLENTOWN PARKING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

	<u>Balance</u> <u>Jan. 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2002</u>
Construction in progress	<u>9,397</u>	<u>307,684</u>	<u>-</u>	<u>317,081</u>
	15,680,891	1,092,093	53,459	16,719,525
Less accumulated depreciation	<u>3,575,072</u>	<u>574,573</u>	<u>35,668</u>	<u>4,113,977</u>
	<u>\$ 12,105,819</u>	<u>\$ 517,520</u>	<u>\$ 17,791</u>	<u>\$ 12,605,548</u>

Depreciation expense for the years ended December 31, 2003 and 2002 was \$617,423 and \$574,573, respectively.

**Note 5. Deferred Charges**

Deferred charge activity for the years ended December 31, 2003 and 2002 consist of the following:

	<u>Year Ended December 31, 2003</u>			
	<u>Balance</u> <u>Jan. 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>Dec. 31, 2003</u>
Bond issuance costs:				
Guaranteed Parking Revenue Refunding Bonds, Series of 1993	\$ 156,640	\$ -	\$ 156,640	\$ -
Guaranteed Parking Revenue Refunding Bonds, Series of 1999	147,913	-	-	147,913
Parking Revenue Bond Series of 2002	12,365	-	12,365	-
Parking Revenue Bond Series of 2003	<u>-</u>	<u>38,489</u>	<u>-</u>	<u>38,489</u>
	316,918	38,489	169,005	186,402
Less accumulated amortization	<u>103,685</u>	<u>27,545</u>	<u>80,479</u>	<u>50,481</u>
	<u>\$ 213,233</u>	<u>\$ 10,944</u>	<u>\$ 88,256</u>	<u>\$ 135,921</u>

**ALLENTOWN PARKING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

	<u>Year Ended December 31, 2002</u>			
	<u>Balance</u>			<u>Balance</u>
	<u>Jan.1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Dec. 31, 2002</u>
Bond issuance costs:				
Guaranteed Parking Revenue Refunding Bonds, Series of 1993	\$ 156,640	\$ -	\$ -	\$ 156,640
Guaranteed Parking Revenue Refunding Bonds, Series of 1999	147,913	-	-	147,913
Parking Revenue Bond Series of 2002	-	12,365	-	12,365
	304,553	12,365	-	316,918
Less accumulated amortization	83,239	20,446	-	103,685
	<u>\$ 221,314</u>	<u>\$ (8,081)</u>	<u>\$ -</u>	<u>\$ 213,233</u>

**Note 6. Notes Payable, Bank**

The Authority has established a line of credit with a local bank in the amount of \$1,000,000. The purpose of the line of credit is to provide temporary funding for improvements to the Authority's parking facilities. The interest rate on the line of credit is 70% of the *Wall Street Journal* Prime Rate. As of December 31, 2003 and 2002, the rate of this line is 2.80% and 2.975%, respectively. As of December 31, 2003 and 2002, the balance outstanding on the line of credit is \$0 and \$175,000, respectively.

During 2002, the Authority issued the Parking Revenue Bond, Series of 2002 in the amount of \$2,000,000 to be used to purchase several properties for the expansion of parking facilities. The Bond interest rate is 68% of the LIBOR rate plus 1%. The Bond matured in November 2003. As of December 31, 2002, the balance of the Bond outstanding was \$485,368. The rate of interest was 1.978% as of December 31, 2002. The Bond was secured by a pledge of Authority revenues.

Short-term debt activity for the years ended December 31, 2003 and 2002 is as follows:

	<u>Year Ended December 31, 2003</u>			
	<u>Balance</u>			<u>Balance</u>
	<u>Jan 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Dec. 31, 2003</u>
Line of credit	\$ 175,000	\$ -	\$ 175,000	\$ -
Parking Revenue Bond, Series of 2002	485,368	-	485,368	-
	<u>\$ 660,368</u>	<u>\$ -</u>	<u>\$ 660,368</u>	<u>\$ -</u>

**ALLENTOWN PARKING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

	Year Ended December 31, 2002			
	Balance Jan 1, 2002	Additions	Retirements	Balance Dec. 31, 2002
Line of credit	\$ 250,000	\$ -	\$ 75,000	\$ 175,000

**Note 7. Long-Term Debt**

Long-term debt activity for the years ended December 31, 2003 and 2002 is as follows:

	Year Ended December 31, 2003			
	Balance Jan 1, 2003	Additions	Retirements	Balance Dec. 31, 2003
<u>Revenue Bonds Payable:</u>				
Guaranteed Parking Revenue Refunding Bonds, Series of 1993	\$ 3,225,000	\$ -	\$ 3,225,000	\$ -
Guaranteed Parking Revenue Refunding Bonds, Series of 1999	5,985,000	-	540,000	5,445,000
Parking Revenue Bond Series B of 1999	1,358,868	-	1,358,868	-
Parking Revenue Bond Series of 2003	-	4,970,000	-	4,970,000
	10,568,868	4,970,000	5,123,868	10,415,000
Less unamortized deferred costs of refunding	322,929	87,690	24,174	386,445
	<u>\$ 10,245,939</u>	<u>\$ 4,882,310</u>	<u>\$ 5,099,694</u>	<u>\$ 10,028,555</u>

Capital Leases Obligations:

Vehicles	\$ 25,043	\$ 33,607	\$ 15,912	\$ 42,738
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**ALLENTOWN PARKING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

	Year Ended December 31, 2002			Balance Dec. 31, 2002
	Balance Jan 1, 2002	Additions	Retirements	
<u>Revenue Bonds Payable:</u>				
Guaranteed Parking Revenue Refunding Bonds, Series of 1993	\$ 3,385,000	\$ -	\$ 160,000	\$ 3,225,000
Guaranteed Parking Revenue Refunding Bonds, Series of 1999	6,500,000	-	515,000	5,985,000
Parking Revenue Bond Series B of 1999	1,514,423	-	155,555	1,358,868
	11,399,423	-	830,555	10,568,868
Less unamortized deferred costs of refunding	347,103	-	24,174	322,929
	<u>\$ 11,052,320</u>	<u>\$ -</u>	<u>\$ 806,381</u>	<u>\$ 10,245,939</u>
<u>Capital Leases Obligations:</u>				
Vehicles	\$ -	\$ 34,900	\$ 9,857	\$ 25,043

A summary of each revenue bond payable and lease is provided in the ensuing paragraphs.

*Guaranteed Parking Revenue Refunding Bonds, Series of 1993*

On November 15, 1993, the Authority issued the Guaranteed Parking Revenue Refunding Bonds, Series of 1993, in the amount of \$4,370,000. The proceeds of the bonds were used to refund the remaining outstanding Guaranteed Parking Revenue Bonds, Series of 1991.

The Bonds were currently refunded with the issuance of the Guaranteed Parking Revenue Refunding Bonds, Series of 2003 on November 13, 2003.

*Guaranteed Parking Revenue Refunding Bonds, Series of 1999*

On July 12, 1999, the Authority issued the Guaranteed Parking Revenue Refunding Bonds, Series of 1999, in the amount of \$6,605,000. The proceeds of the Bonds as well as an Authority contribution of \$620,796 were used to currently refund the remaining outstanding Guaranteed Parking Revenue Bonds, Series of 1989 and to pay off the balance due on the Tax Exempt Note, Series 1 of 1994. Bond proceeds were also used to pay the issuance cost of the Bonds.

**ALLENTOWN PARKING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

Principal on the Bonds is payable each October 1 with interest payments payable each April 1 and October 1. The schedule of future maturities and total debt service of the Bonds as of December 31, 2003 is as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
2004	\$ 555,000	4.25%	\$ 253,018	\$ 808,018
2005	525,000	4.30%	229,430	754,430
2006	540,000	4.40%	206,856	746,856
2007	565,000	4.50%	183,096	748,096
2008	595,000	4.70%	157,670	752,670
2009	620,000	4.75%	129,706	749,706
2010	650,000	4.85%	100,256	750,256
2011	680,000	4.85%	68,730	748,730
2012	<u>715,000</u>	5.00%	<u>35,750</u>	<u>750,750</u>
	<u>\$ 5,445,000</u>		<u>\$ 1,364,512</u>	<u>\$ 6,809,512</u>

The Bonds maturing on and after October 1, 2005 are subject to redemption prior to maturity, at the option of the Authority, as a whole, or in part on October 1, 2004 or any date thereafter, as directed by the Authority.

The Bonds maturing on October 1, 2011 are subject to mandatory redemption prior to maturity, as drawn by lot by the trustee, or as applicable, will be payable at maturity, by application of the money available for the purpose in the sinking fund on October 1 of the following years in the following principal amounts.

Bonds Maturing October 1, 2011

<u>Year</u>	<u>Principal Amount</u>
2010	\$650,000
2011 (at maturity)	680,000

The City of Allentown guarantees the principal and interest on the Bonds. The bonds are secured by a pledge of Authority revenues.

*Parking Revenue Bond, Series B of 1999*

On December 15 1999, the Authority issued the Parking Revenue Bond, Series B of 1999, in the amount of \$1,800,000 after entering into a bond purchase agreement with Wachovia Bank N.A. (formally First Union National Bank). The proceeds of the Bond were used to purchase two parking facilities in the City of Allentown.

The Bond was paid off with the issuance of the Guaranteed Parking Revenue Refunding Bonds, Series of 2003 on November 13, 2003.

## ALLENTOWN PARKING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

#### *Guaranteed Parking Revenue Refunding Bonds, Series of 2003*

On November 13, 2003, the Authority issued the Guaranteed Parking Revenue Refunding Bonds, Series of 2003, in the amount of \$4,970,000. The proceeds of the bonds were used to currently refund the remaining outstanding Guaranteed Parking Revenue Bonds, Series of 1993 and to pay off the remaining principal and interest due on the Parking Revenue Bond, Series B of 1999, Parking Revenue Bond, Series of 2002 and the Authority's outstanding line of credit. Bond proceeds were also used to pay the issuance costs of the Bonds.

Principal on the Bonds is payable each November 15 with interest payments payable each May 15 and November 15. The schedule of future maturities and total debt service of the Bonds as of December 31, 2003 is as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
2004	\$ 375,000	2.00%	\$ 159,493	\$ 534,493
2005	440,000	3.00%	146,022	586,022
2006	460,000	3.00%	132,823	592,823
2007	470,000	2.00%	119,022	589,022
2008	480,000	3.50%	109,622	589,622
2009	500,000	2.60%	92,823	592,823
2010	290,000	3.00%	79,822	369,822
2011	295,000	3.25%	71,123	366,123
2012	310,000	3.50%	61,535	371,535
2013	320,000	3.60%	50,685	370,685
2014	330,000	3.70%	39,165	369,165
2015	345,000	3.80%	26,955	371,955
2016	<u>355,000</u>	3.90%	<u>13,845</u>	<u>368,845</u>
	<u>\$ 4,970,000</u>		<u>\$ 1,102,935</u>	<u>\$ 6,072,935</u>

The Bonds maturing on and after November 15, 2009 are subject to redemption prior to maturity, at the option of the Authority, as a whole, or in part on November 15, 2008 or any date thereafter, as directed by the Authority.

The City of Allentown guarantees the principal and interest on the Bonds. The bonds are secured by a pledge of Authority revenues.

The current refunding enables the Authority to reduce its total debt service payments by approximately \$408,000, over the next 13 years. The current refunding also enables the Authority to obtain an economic gain (difference between net present value payments on the new and old debt) of approximately \$368,000.

**ALLENTOWN PARKING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

*Unamortized Deferred Costs of Refunding*

In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, the Authority has deferred the difference between the reacquisition price (the amount deposited into escrow to pay off the bonds) and the net carrying amount of previously refunded debt. This deferred cost of refunding is being amortized into interest expense on a straight-line basis over the shorter of the life of the new and old bonds. During the years ended December 31, 2003 and 2002, such amortization amounted to \$24,174 for both years. The unamortized deferred costs of refunding are reported as a reduction of the outstanding bonds payable.

The annual aggregate maturities of long-term debt as of December 31, 2003 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Deferred Refunding Costs</u>
2004	\$ 930,000	\$ 412,511	\$ 1,342,511	\$ 30,963
2005	965,000	375,452	1,340,452	30,963
2006	1,000,000	339,679	1,339,679	30,963
2007	1,035,000	302,118	1,337,118	30,963
2008	1,075,000	267,292	1,342,292	30,963
2009	1,120,000	222,529	1,342,529	30,963
2010	940,000	180,078	1,120,078	30,963
2011	975,000	139,853	1,114,853	30,963
2012	1,025,000	97,285	1,122,285	30,208
2013	320,000	50,685	370,685	27,937
2014	330,000	39,165	369,165	27,937
2015	345,000	26,955	371,955	27,937
2016	<u>355,000</u>	<u>13,845</u>	<u>368,845</u>	<u>24,722</u>
	<u>\$10,415,000</u>	<u>\$ 2,467,447</u>	<u>\$12,882,447</u>	<u>\$ 386,445</u>

*Capital Leases Obligations – Vehicles*

The Authority has entered into capital leases for the purchase of vehicles. The minimum future lease payments under capital leases as of December 31, 2003 are as follows:

<u>Year Ending December 31</u>	
2004	\$ 24,761
2005	13,412
2006	<u>7,230</u>
	45,403
Less amounts representing interest	<u>2,665</u>
	<u>\$ 42,738</u>

**ALLENTOWN PARKING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

The cost and accumulated depreciation of vehicles under capital lease is \$75,647 and \$15,660, respectively, as of December 31, 2003. The cost and accumulated depreciation of vehicles under capital lease was \$37,242 and \$6,253, respectively, as of December 31, 2002.

**Note 8. Operating Leases**

The Authority utilizes operating leases to meet its various equipment and parking lot needs. The minimum future rentals due from these operating leases, which includes the lease of office equipment, as of December 31, 2003 are as follows:

<u>Year Ending December 31</u>	
2004	\$ 2,222
2005	<u>185</u>
	<u>\$ 2,407</u>

Lease rental expense for these leases in addition to leases of various parking lots in the City of Allentown amounted to \$5,974 and \$5,993 for the years ended December 31, 2003 and 2002, respectively.

**Note 9. Pension Plans**

The Authority maintains two pension plans for its eligible employees.

*Allentown Parking Authority Union Employees' Defined Contribution Retirement Plan*

This retirement plan is designed to provide retirement benefit to the Authority's eligible union employees. The plan covers all eligible employees over the age of 19 with one year of service with the Authority. Employer contributions to the plan are established by the Union's collective bargaining agreement. Employer contributions were fixed at 4% by the collective bargaining agreement for the years ended December 31, 2003 and 2002. Participant contributions are on a voluntary basis up to 10% of compensation. The plan's provisions may be amended by resolution of the Authority's Board of Directors subject to 90 days written notice to the plan's Trustee. No modification which affects the rights, duties and responsibilities of the Trustee may be made without the Trustee's consent.

*Allentown Parking Authority Salaried Employees Defined Benefit Pension Plan*

The Authority has established the Salaried Employees Defined Benefit Pension Plan, a single employer plan, to provide retirement and death benefits to plan members and beneficiaries of the Authority's eligible salaried employees. All new salaried employees are eligible for membership in the Plan on the first day of the month following employment.

**ALLENTOWN PARKING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**Funding Policy:**

The contribution requirements of the plan members and the Authority and the Plan's benefit provisions are established by the plan document and may be amended only by the Authority Board. Plan members are required to contribute 5% of their compensation as a condition of membership. The Authority is required to contribute to the plan to cover the expenses of the plan and to fund all the benefits of the plan on a sound actuarial basis.

**Annual Pension Cost and Net Pension Obligation:**

The annual required contribution was determined as part of an actuarial valuation dated January 1, 2003 using the Entry Age Normal Cost Valuation Method. The Authority's annual pension cost and net pension obligation to the plan for the plan year ended December 31, 2003 and 2002 were as follows:

	<u>2003</u>	<u>2002</u>
Annual required contribution	\$ 196,266	\$ 150,909
Interest on net pension obligation	-	-
Adjustment to annual required contribution	<u>-</u>	<u>-</u>
Annual pension cost	196,266	150,909
Contributions made	<u>209,813</u>	<u>150,909</u>
(Increase) decrease in net pension obligation (asset)	(13,547)	-
Net pension obligation (asset), beginning of year	<u>-</u>	<u>-</u>
Net pension obligation (asset), end of year	<u>\$ (13,547)</u>	<u>\$ -</u>

**Actuarial Assumptions:**

The actuarial assumptions of the Plan include the following:

- a) Investment return - 7.5%
- b) Post-retirement costs were estimated using the 1983 Group Mortality Table. Female mortality is assumed equal to that of males six years younger.
- c) Salary increases of 5% compounded annually.
- d) Retirement is assumed at normal retirement age of 55.
- e) Post-retirement benefits assume a life annuity with 120 monthly payments guaranteed.

# ALLENTOWN PARKING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

- f) The unfunded actuarial liability is amortized using the level dollar method over a period of eight years.
- g) An adjustment for inflation is included in the investment return and salary increase assumptions.

### Asset Valuation:

Plan assets are valued using market values, except for insurance holdings, if any, which are valued at reported contract values.

### Trend Information:

Trend information for the plan is as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/02	\$ 150,909	100%	\$ 0
12/31/03	196,266	107%	(13,547)

The Authority's pension expense amounted to \$213,381 and \$169,923 for the years ended December 31, 2003 and 2002, respectively.

### Note 10. Contributions

The Authority has entered into an agreement with the City of Allentown whereby the Authority remits to the City a contribution equal to the amount collected for tickets written by the Allentown Police Department net of certain Authority expenses on a quarterly basis. The net contribution made to the City of Allentown was \$211,950 and \$169,255 for the years ended December 31, 2003 and 2002, respectively. The agreement is on a year to year basis subject to the consent of both parties.

### Note 11. Deferred Compensation Plan

The Authority has established a deferred compensation plan for the benefit of its employees in accordance with Internal Revenue Code Section 457. This plan permits employees to voluntarily defer current compensation until future years. The assets of the Plan are held in trust by the Mutual of America Life Insurance Company. Because the assets of the Plan are held in trust for the exclusive benefit of the Plan's participants and beneficiaries, as required by the Internal Revenue Code, the assets are not recorded in the financial statements of the Authority in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Investments are managed and offered by the trustee for the benefit of the participants.

## ALLENTOWN PARKING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

The Authority makes no contributions to the Plan. Eight employees contributed to the Plan during 2003 and 2002.

#### **Note 12. Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets and errors and omissions. The Authority purchases commercial insurance to cover most insurable risks.

During the year ended December 31, 2003, the Authority joined the Lehigh Valley Insurance Cooperative (LVIC), a pool of municipalities to purchase health insurance coverage. The purpose of the cooperative is to control escalating health care premiums by allowing municipalities the potential for volume discounts and annual premium returns for favorable claims experience. Rates for each municipality are developed annually with a final reconciliation of total premiums to actual claims made approximately six months after each policy year end. Allocation of any surplus is determined by a board of officers appointed by participants. Unfavorable experience is included in the following year rates. Maximum limits for any one claim are established to minimize cost exposure. A 10% reserve is built into the rates to cover the cooperatives operating costs and any unfavorable experience.

#### **Note 13. Litigation**

In the normal course of business, the Authority is involved in various civil disputes. It is believed that any potential losses on these various claims and lawsuits will not have a material impact on the Authority.

**ALLENTOWN PARKING AUTHORITY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Funding Progress for**

**Defined Benefit Pension Plan**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UALL as a Percentage of Covered Payroll ((b-a)/c)</u>
01/02/02	\$ 403,268	\$ 1,296,750	\$ 893,482	31.10%	\$ 496,059	180.1%
01/01/03	575,341	1,510,592	935,251	38.09%	531,536	176.0%

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**ALLENTOWN PARKING AUTHORITY**

**SCHEDULE OF OPERATING REVENUES AND EXPENSES,  
EXCLUDING DEPRECIATION AND AMORTIZATION  
ACTUAL AND BUDGET  
Year Ended December 31, 2003**

	<u>Actual</u>		
	<u>Park &amp; Shop</u>	<u>On-street Parking</u>	<u>Surface Lots</u>
<b>OPERATING REVENUES</b>			
On-street parking:			
Parking meter	\$ -	\$ 630,913	\$ -
Parking fines	-	2,136,133	-
Parking permits	-	38,340	-
Total on-street parking	-	2,805,386	-
Garages and lots	321,389	-	117,011
Total operating revenues	<u>321,389</u>	<u>2,805,386</u>	<u>117,011</u>
<b>OPERATING EXPENSES</b>			
Wages and benefits	213,438	716,148	33,831
Services and charges:			
Utilities	19,233	-	5,952
Postage	-	-	-
Printing	-	-	-
Advertising	-	-	-
Lot rental	-	-	3,751
Training and professional development	-	-	-
Insurance	10,392	13,982	1,511
Repairs and maintenance	8,023	27,624	74
Equipment leasing	-	-	-
Professional fees	-	-	-
Snow removal	18,327	-	3,975
Real estate taxes	2,723	-	-
Bank and coin counting fees	-	6,974	-
Other	165	7,409	204
Total services and charges	<u>58,863</u>	<u>55,989</u>	<u>15,467</u>
Materials and supplies:			
Uniforms	72	5,944	-
Office and operating supplies	-	330	-
Vehicle expense	-	6,899	-
Total materials and supplies	<u>72</u>	<u>13,173</u>	<u>-</u>
Total operating expenses before depreciation and amortization	<u>272,373</u>	<u>785,310</u>	<u>49,298</u>
Operating income (loss) before depreciation and amortization	<u>\$ 49,016</u>	<u>\$ 2,020,076</u>	<u>\$ 67,713</u>

Actual						
Parking Garages				Total	Budget	Variance Favorable (Unfavorable)
Walnut and Ninth Streets	600 Linden Street	Bon Ton Garage	Administrative and General			
\$ -	\$ -	\$ -	\$ -	\$ 630,913	\$ 610,000	\$ 20,913
-	-	-	-	2,136,133	1,976,500	159,633
-	-	-	-	38,340	37,000	1,340
-	-	-	-	2,805,386	2,623,500	181,886
<u>274,693</u>	<u>188,588</u>	<u>324,287</u>	<u>-</u>	<u>1,225,968</u>	<u>1,309,200</u>	<u>(83,232)</u>
<u>274,693</u>	<u>188,588</u>	<u>324,287</u>	<u>-</u>	<u>4,031,354</u>	<u>3,932,700</u>	<u>98,654</u>
<u>184,705</u>	<u>52,262</u>	<u>-</u>	<u>552,491</u>	<u>1,752,875</u>	<u>1,762,300</u>	<u>9,425</u>
19,492	11,659	48,689	33,221	138,246	122,050	(16,196)
-	-	-	21,662	21,662	20,000	(1,662)
-	-	-	23,844	23,844	22,000	(1,844)
-	-	-	3,806	3,806	6,000	2,194
-	-	-	-	3,751	3,000	(751)
-	-	-	20,734	20,734	20,000	(734)
13,453	8,970	12,010	6,049	66,367	75,950	9,583
9,320	8,425	26,179	37,307	116,952	99,150	(17,802)
-	-	-	3,841	3,841	-	(3,841)
-	-	-	41,109	41,109	50,000	8,891
3,100	3,300	2,400	-	31,102	17,800	(13,302)
-	6,215	-	-	8,938	11,300	2,362
-	-	-	5,713	12,687	13,000	313
<u>1,771</u>	<u>1,169</u>	<u>158</u>	<u>9,524</u>	<u>20,400</u>	<u>31,500</u>	<u>11,100</u>
<u>47,136</u>	<u>39,738</u>	<u>89,436</u>	<u>206,810</u>	<u>513,439</u>	<u>491,750</u>	<u>(21,689)</u>
843	-	-	-	6,859	11,100	4,241
2,994	906	-	17,468	21,698	16,600	(5,098)
-	-	-	-	6,899	7,500	601
<u>3,837</u>	<u>906</u>	<u>-</u>	<u>17,468</u>	<u>35,456</u>	<u>35,200</u>	<u>(256)</u>
<u>235,678</u>	<u>92,906</u>	<u>89,436</u>	<u>776,769</u>	<u>2,301,770</u>	<u>2,289,250</u>	<u>(12,520)</u>
<u>\$ 39,015</u>	<u>\$ 95,682</u>	<u>\$ 234,851</u>	<u>\$ (776,769)</u>	<u>\$ 1,729,584</u>	<u>\$ 1,643,450</u>	<u>\$ 86,134</u>

**ALLENTOWN PARKING AUTHORITY**

**SCHEDULE OF OPERATING REVENUES AND EXPENSES,  
EXCLUDING DEPRECIATION AND AMORTIZATION  
ACTUAL AND BUDGET  
Year Ended December 31, 2002**

	<u>Actual</u>		
	<u>Park &amp; Shop</u>	<u>On-street Parking</u>	<u>Surface Lots</u>
<b>OPERATING REVENUES</b>			
On-street parking:			
Parking meter	\$ -	\$ 644,800	\$ -
Parking fines	-	2,216,876	-
Parking permits	-	38,400	-
Total on-street parking	-	2,900,076	-
Garages and lots	357,025	-	116,252
Total operating revenues	357,025	2,900,076	116,252
<b>OPERATING EXPENSES</b>			
Wages and benefits	192,509	668,056	34,157
Services and charges:			
Utilities	18,907	-	5,455
Postage	-	-	-
Printing	-	-	-
Advertising	-	-	-
Lot rental	-	-	3,775
Training and professional development	-	-	-
Insurance	7,313	16,762	1,515
Repairs and maintenance	9,686	26,099	(1,430)
Equipment leasing	-	-	-
Professional fees	-	-	-
Snow removal	12,742	-	1,696
Real estate taxes	2,298	-	-
Bank and coin counting fees	-	6,433	-
Other	1,945	995	216
Total services and charges	52,891	50,289	11,227
Materials and supplies:			
Uniforms	144	3,883	-
Office and operating supplies	-	150	-
Vehicle expense	-	6,996	-
Total materials and supplies	144	11,029	-
Total operating expenses before depreciation and amortization	245,544	729,374	45,384
Operating income (loss) before depreciation and amortization	\$ 111,481	\$ 2,170,702	\$ 70,868

Actual						
Parking Garages						
Walnut and Ninth Streets	600 Linden Street	Bon Ton Garage	Administrative and General	Total	Budget	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ 644,800	\$ 570,000	\$ 74,800
-	-	-	-	2,216,876	1,726,500	490,376
-	-	-	-	38,400	33,000	5,400
-	-	-	-	2,900,076	2,329,500	570,576
<u>364,015</u>	<u>176,339</u>	<u>356,101</u>	<u>-</u>	<u>1,369,732</u>	<u>1,328,500</u>	<u>41,232</u>
<u>364,015</u>	<u>176,339</u>	<u>356,101</u>	<u>-</u>	<u>4,269,808</u>	<u>3,658,000</u>	<u>611,808</u>
<u>170,522</u>	<u>49,667</u>	<u>-</u>	<u>545,652</u>	<u>1,660,563</u>	<u>1,692,600</u>	<u>32,037</u>
19,382	10,480	50,394	23,823	128,441	112,650	(15,791)
-	-	-	20,068	20,068	17,000	(3,068)
-	-	-	35,960	35,960	18,000	(17,960)
-	-	-	2,850	2,850	6,000	3,150
-	-	-	-	3,775	3,500	(275)
-	-	-	24,445	24,445	15,000	(9,445)
14,990	7,423	9,130	3,032	60,165	52,000	(8,165)
15,885	11,957	14,608	21,274	98,079	83,400	(14,679)
-	-	-	3,839	3,839	5,500	1,661
-	-	-	44,437	44,437	47,600	3,163
-	-	-	-	14,438	18,700	4,262
-	9,798	-	-	12,096	9,000	(3,096)
-	-	-	6,494	12,927	13,000	73
-	-	-	19,166	22,322	18,900	(3,422)
<u>50,257</u>	<u>39,658</u>	<u>74,132</u>	<u>205,388</u>	<u>483,842</u>	<u>420,250</u>	<u>(63,592)</u>
144	-	-	-	4,171	10,200	6,029
2,981	1,813	-	8,800	13,744	15,000	1,256
-	-	-	-	6,996	7,500	504
<u>3,125</u>	<u>1,813</u>	<u>-</u>	<u>8,800</u>	<u>24,911</u>	<u>32,700</u>	<u>7,789</u>
<u>223,904</u>	<u>91,138</u>	<u>74,132</u>	<u>759,840</u>	<u>2,169,316</u>	<u>2,145,550</u>	<u>(23,766)</u>
<u>\$ 140,111</u>	<u>\$ 85,201</u>	<u>\$ 281,969</u>	<u>\$ (759,840)</u>	<u>\$ 2,100,492</u>	<u>\$ 1,512,450</u>	<u>\$ 588,042</u>

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*Allentown Economic  
Development Corporation*

*June 30, 2003 and 2002*

*Financial Statements and Auditors' Report*

*Concannon  
Gallagher  
Miller  
& Co., P.C.*  
Certified Public Accountants  
and Business Consultants

JUNE 30, 2003 AND 2002

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Allentown Economic Development Corporation

We have audited the accompanying statements of financial position of Allentown Economic Development Corporation as of June 30, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Allentown Economic Development Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Allentown Economic Development Corporation as of June 30, 2003 and 2002, the change in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Concannon, Gallagher, Miller & Company, P.C.*

Allentown, PA  
August 29, 2003

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ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION  
STATEMENTS OF FINANCIAL POSITION

<u>ASSETS</u>	June 30,	
CURRENT ASSETS	2003	2002
Cash and cash equivalents	\$ 591,915	\$ 607,245
Cash and cash equivalents - designated (Note 3)	3,626,226	3,922,998
Miscellaneous receivables and prepayments	208,685	260,229
Notes receivable, current maturities		
Revolving loan program receivables (Note 6)	89,325	102,820
Mortgage receivables (Note 8)	79,585	45,492
Total Current Assets	4,595,736	4,938,784
<b>PROPERTY, FURNITURE AND EQUIPMENT (Notes 2 and 4)</b>		
Continuing operations, at cost, net	5,974,937	10,136,497
Project development properties, at cost	8,309,626	8,554,311
Total Property, Furniture and Equipment	14,284,563	18,690,808
<b>OTHER ASSETS</b>		
Notes receivable, net of current maturities		
Revolving loan program receivables (Note 6)	670,259	678,405
Mortgage receivables (Note 8)	711,346	547,073
Deferred costs (Notes 2 and 5)	44,932	64,703
Investment - ADCO	10,000	10,000
Total Other Assets	1,436,537	1,300,181
Total Assets	\$ 20,316,836	\$ 24,929,773
<u>LIABILITIES AND NET ASSETS</u>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 340,579	\$ 540,836
Tenant security and deposit fees	115,088	87,801
Deferred support, current portion	148,201	185,825
Notes and mortgages payable, current maturities (Note 10)	280,328	325,320
Total Current Liabilities	884,196	1,139,782
<b>LONG-TERM LIABILITIES</b>		
Notes and mortgages payable, net of current maturities (Note 10)	3,378,557	7,014,675
Deferred support - UDAG	200,000	200,000
Total Long-Term Liabilities	3,578,557	7,214,675
Total Liabilities	4,462,753	8,354,457
<b>COMMITMENT AND CONTINGENCIES</b> (Note 12)		
<b>NET ASSETS (Note 18)</b>		
Total Liabilities and Net Assets	15,854,083	16,575,316
	\$ 20,316,836	\$ 24,929,773

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

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF ACTIVITIES**

	Years Ended	
	June 30,	
	2003	2002
<b>SUPPORT AND REVENUE</b>		
Support		
Funding from City of Allentown		
Operations - CDBG	\$ 207,790	\$ 369,324
Project funding	37,624	205,873
Enterprise Zone	47,676	42,407
State and federal funding	14,651	1,243,222
Contributions and grants	75,065	1,637,961
Membership dues	40,300	72,425
	423,106	3,571,212
Revenue		
Fees and service charges	99,973	100,588
Interest	90,786	126,090
Management fee income	24,000	24,000
Miscellaneous income	1,171	1,800
Professional services	32,795	25,275
Rental income (Note 16)	1,319,037	1,503,692
	1,567,762	1,781,445
Total Support and Revenue	1,990,868	5,352,657
<b>EXPENSES</b>		
Administrative services and related costs	483,380	543,974
Advertising, promotion and marketing	3,899	11,130
Bad debt	-	90,180
Commissions	1,038	-
Contributions	50,000	-
Depreciation and amortization (Note 2)	322,955	375,894
Dues and subscriptions	1,498	1,682
Insurance	86,986	78,500
Interest	647,247	522,845
Loan packaging	1,237	1,682
Office supplies and related expenses	21,653	23,499
Professional fees-funded studies and other	132,907	109,948
Program expenses	126,580	7,573
Real estate and other taxes	78,501	89,138
Rent	26,327	3,600
Repair, maintenance and miscellaneous	111,665	133,744
Telephone and utilities	164,055	158,084
Trade associations	2,790	2,660
Training and professional development	626	2,243
Travel and meetings	4,728	5,871
(Note 12) Total Expenses	2,268,072	2,162,247
<b>CHANGES IN NET ASSETS BEFORE LOSS ON SALE OF ASSETS</b>	(277,204)	3,190,410
<b>LOSS ON SALE OF ASSETS</b>	(444,029)	(1,800,357)
<b>CHANGES IN NET ASSETS</b>	(721,233)	1,390,053
<b>NET ASSETS, JULY 1</b>	16,575,316	15,185,263
<b>NET ASSETS, JUNE 30</b>	\$ 15,854,083	\$ 16,575,316

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

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2003 WITH SUMMARIZED FINANCIAL INFORMATION FOR 2002**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2003</u>	<u>2002</u>
NET ASSETS, JULY 1	\$ 15,591,187	\$ 142,863	\$ 841,266	\$ 16,575,316	\$ 15,185,263
CHANGES IN NET ASSETS	(665,176)	(81,777)	25,720	(721,233)	1,390,053
NET ASSETS, JUNE 30	<u>\$ 14,926,011</u>	<u>\$ 61,086</u>	<u>\$ 866,986</u>	<u>\$ 15,854,083</u>	<u>\$ 16,575,316</u>

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

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENTS OF CASH FLOWS**

	Years Ended	
	June 30,	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (721,233)	\$ 1,390,053
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	322,955	375,894
Bad debt	-	90,180
Loss on sale of assets	444,029	1,800,357
	45,751	3,656,484
<b>Changes in operating assets and liabilities</b>		
Decrease in miscellaneous receivables and prepayments	51,544	98,350
(Decrease) Increase in accounts payable and accrued expenses	(200,257)	135,504
Decrease in deferred support	(37,624)	(72,945)
Increase (Decrease) in tenant security and deposit fees	27,287	(234,615)
	(159,050)	(73,706)
Net Cash Provided by Operating Activities	(113,299)	3,582,778
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, furniture and equipment	(6,771)	(6,949)
Additions to project development properties	(31,234)	(1,969,120)
Proceeds from sale of assets	3,697,037	531,083
Loans and mortgages made	(418,792)	(122,471)
Collections on loans and mortgages	242,067	247,733
Net Cash Used in Investing Activities	3,482,307	(1,319,724)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of notes and mortgages	(3,681,110)	(396,088)
Net Cash Used in Financing Activities	(3,681,110)	(396,088)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(312,102)	1,866,966
<b>CASH AND CASH EQUIVALENTS, JULY 1</b>	4,530,243	2,663,277
<b>CASH AND CASH EQUIVALENTS, JUNE 30</b>	\$ 4,218,141	\$ 4,530,243

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

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003 AND 2002**

**NOTE 1 Description of Business**

Allentown Economic Development Corporation (AEDC) is a nonprofit corporation, formed to further economic development in Allentown, Pennsylvania. The Corporation provides technical and financial assistance to existing business, while attempting to attract new commerce into the City.

The Corporation provides assistance to any business large or small, whether retail, service or industrial. This assistance may include:

- ◆ Negotiating loans or loan guarantees with commercial lenders.
- ◆ Packaging state or federal loan programs and loan applications or providing financing directly to business.
- ◆ Coordinating local government planning and expenditures for certain city services and public improvements.
- ◆ Encouraging and fostering the development of economic growth through the establishment and maintenance of a small business incubator facility where new and growing businesses operate under one roof with low cost rental, shared services and equipment and access to professional, technical and financial programs.
- ◆ Acting in the capacity of a developer by obtaining and renovating real estate, then leasing or selling it to private industry.
- ◆ Assisting businesses eligible to participate in the City of Allentown's Enterprise Zone Program.

**NOTE 2 Summary of Significant Accounting Policies**

**Contributions**

Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, the Corporation considers all certificates of deposit with minimal early withdrawal penalties and money market funds to be cash equivalents.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2003 AND 2002**

**NOTE 2 Summary of Significant Accounting Policies (Continued)**

**Memberships/Pledges**

The Corporation is a membership organization and encourages participation by the private business sector in planning and decision making, as well as funding.

Legally enforceable pledges are recorded as receivables in the year made. Memberships and pledges applicable to current operations are recorded as support in the current period. Memberships and pledges related to future operations are recorded as deferred support.

**Property, Furniture and Equipment**

Property, furniture and equipment are stated at cost and include expenditures for new acquisitions, major betterments and renewals. Repair and maintenance expenditures, which do not extend asset lives, are shown as a current period use of funds. Construction period interest and real estate taxes are capitalized and included in cost of property.

Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets.

**Deferred Costs and Amortization**

Financing fees are amortized over the life of the related indebtedness (5 to 21 years).

**Taxes on Income**

The Internal Revenue Service recognizes the Corporation, a Pennsylvania nonprofit corporation, as exempt from federal income taxes under 501(c)(3) of the Internal Revenue Code.

**Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

**Interest Rate Swap Agreement**

Amounts receivable or payable under an interest rate swap agreement are recorded as a reduction or increase to interest expense.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2003 AND 2002**

**NOTE 3 Cash and Cash Equivalents**

The Corporation maintains cash balances at a financial institution located in eastern Pennsylvania. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. In addition, funds in a money market account are collateralized by the financial institution in the amount of \$3,114,391 and \$3,489,849 at June 30, 2003 and 2002. At June 30, 2003 and 2002, the Corporation's uninsured and uncollateralized cash balances totaled \$1,006,146 and \$948,356 respectively.

The Corporation has cash and cash equivalents designated in accordance with certain grant agreements as follows:

<u>Designated Project/Program</u>	<u>June 30,</u>	
	<u>2003</u>	<u>2002</u>
Bridgeworks Incubator	\$ 70,699	\$ 103,526
Urban Development Action Grant	229,879	205,130
Revolving Loan Programs	880,315	995,692
Project Development Properties		
Lehigh Landing	119,716	211,912
Portland Place	550,047	375,838
Downtown Projects	64,826	155,716
Artswalk	276,771	334,599
Reserve for development projects	<u>1,433,973</u>	<u>1,540,585</u>
	<u>\$3,626,226</u>	<u>\$3,922,998</u>

**NOTE 4 Property, Furniture and Equipment**

<u>Continuing Operations</u>	<u>Estimated Useful Life (Years)</u>	<u>June 30,</u>	
		<u>2003</u>	<u>2002</u>
Office equipment and furniture	5-10	\$ 112,873	\$ 145,483
Bridgeworks Industrial Center			
Land		291,000	291,000
Building and improvements	45, 30	5,389,705	5,389,705
Bridgeworks Incubator			
Land		66,900	66,900
Building and improvements	45, 30	2,129,658	2,129,658
Portland Place			
Land		61,700	152,800
Building and improvements	30	<u>87,800</u>	<u>4,459,529</u>
		8,139,636	12,635,075
Less accumulated depreciation		<u>2,164,699</u>	<u>2,498,578</u>
		<u>\$ 5,974,937</u>	<u>\$ 10,136,497</u>
<u>Project Development Properties</u>		<u>June 30,</u>	
		<u>2003</u>	<u>2002</u>
Seventh Street properties		\$ 694,883	\$ 682,083
Riverfront properties		6,699,866	6,693,014
Arts Center (Schoen's)		229,696	218,114
Hamilton Mall properties		<u>685,181</u>	<u>961,100</u>
		<u>\$ 8,309,626</u>	<u>\$ 8,554,311</u>

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2003 AND 2002**

**NOTE 5      Deferred Costs**

	<u>June 30,</u>	
	<u>2003</u>	<u>2002</u>
Loan fees	\$ 88,750	\$ 112,300
Less accumulated amortization	<u>43,818</u>	<u>47,597</u>
	<u>\$ 44,932</u>	<u>\$ 64,703</u>

**NOTE 6      Revolving Loan Program Receivables**

Revolving loan program receivables include \$219,939 (\$241,946 at June 30, 2002) on installment direct loans requiring monthly payments of \$2,489 including interest from 5% to 6% with final payments due September 2003 through April 2021. These notes are collateralized primarily by third mortgages on real estate and third liens on equipment, furniture and fixtures.

Revolving loan program receivables also include \$448,285 (\$410,264 at June 30, 2002) from the Neighborhood Business Revitalization Program of City of Allentown ("NBR") and \$91,360 (\$129,015 at June 30, 2002) from a Downtown Façade Program requiring monthly payments in the aggregate of \$7,443 including interest from 0% to 6% with final payments due March 2005 through May 2013. These notes are collateralized primarily by second or third mortgages on real estate and liens on machinery, fixtures, appliances, equipment and leasehold improvements.

Future maturities of revolving loan program receivables at June 30, 2003 are as follows:

2004	\$ 89,325
2005	109,239
2006	83,547
2007	79,629
2008	74,693
Thereafter	<u>323,151</u>
	<u>\$ 759,584</u>

**NOTE 7      Small Business Administration Loan Programs**

The Corporation administers SBA 503 and 504 Loan Programs. The Corporation assists in loan origination and subsequent monitoring of loans funded through the sale of debentures. All of the Corporation's rights and interests in the notes are signed over to the SBA immediately upon making the loan. These loan balances are not obligations of the Corporation and are not included in the accompanying statements of financial position. The Corporation receives monthly service fees equal to one-half of one percent per annum on the outstanding loan balances. Service fee revenue amounted to \$89,872 and \$84,819 in 2003 and 2002, respectively.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2003 AND 2002**

**NOTE 8 Mortgage Receivables**

	<u>June 30,</u>	
	<u>2003</u>	<u>2002</u>
Lehigh Valley Plastics, Inc; a plastics fabricator and wholesaler; secured by second mortgage on property at 1075 N. Gilmore Street, Allentown, PA; for facility improvements; in original amount of \$250,000; payable in 120 monthly installments of \$2,502 including principal and interest at 3.75% through August 2010 (b)	\$ 189,234	\$ 211,697
Penn Foam Corporation; a manufacturer and fabricator of foam for various industries; secured by second mortgage on property at 2625 Mitchell Avenue, Allentown, PA for facility expansion; in original amount of \$245,000; payable in 120 monthly installments of \$2,452 including principal and interest at 3.75% through June 2009 (b)	157,840	180,868
Secondary loans issued to three area companies in original amount of \$249,263; payable in monthly installments of \$3,475 including principal and interest at 3%, with final payments due March 2010 through August 2010 (b)	243,857	0
Corporate Plaza Associates Limited Partnership; land; 18-36 North Seventh Street, Allentown, PA; \$200,000 second mortgage note bears no interest and is due upon the sale of the property Principal (a)	<u>200,000</u>	<u>200,000</u>
	790,931	592,565
Current maturities	<u>79,585</u>	<u>45,492</u>
	<u>\$ 711,346</u>	<u>\$ 547,073</u>

Future maturities of mortgage receivables as of June 30, 2003 are as follows:

	<b>UDAG</b>		
	<b>Corporate</b>	<b>Enterprise</b>	
	<b>Plaza</b>	<b>Zone</b>	<b>Total</b>
2004	\$	\$ 79,585	\$ 79,585
2005		84,458	84,458
2006		87,406	87,406
2007		90,458	90,458
2008		93,618	93,618
Thereafter	<u>200,000</u>	<u>155,406</u>	<u>355,406</u>
	<u>\$ 200,000</u>	<u>\$ 590,931</u>	<u>\$ 790,931</u>

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2003 AND 2002**

**NOTE 8 Mortgage Receivables (Continued)**

- (a) The U.S. Department of Housing and Urban Development (HUD) has made several grants available to the City of Allentown, PA for economic development under terms of the Urban Development Action Grant Agreement. The Corporation, acting as agent for the City, lends the grant proceeds to the project developer for construction. The Corporation receives a promissory note and second mortgage on the project. An amount equal to the receivable is recorded as a liability and is classified as deferred support. Based on an agreement with the City, as repayments are received, an equal amount of deferred support is recognized as restricted funding in the year of repayment.
- (b) The state of Pennsylvania has made available a Competitive Grant Loan Program which is an Enterprise Zone incentive, whereby the City of Allentown may make application to the state for a grant to be subsequently passed through an existing agreement to the Corporation, which in turn lends the proceeds to the qualifying business; repayments will accumulate in a revolving loan fund administered by the Corporation, available for additional Enterprise Zone projects. Secondary loans have been issued to three area companies from this fund at June 30, 2003.

**NOTE 9 Notes Payable – Interdepartmental**

An interdepartmental loan to the Bridgeworks Industrial Center is payable to the UDAG Fund in monthly installments of \$2,062 including principal and interest at 3% for 10 year term ending June 2005. The balance of the loan at June 30, 2003 is \$47,825.

The general division has an interdepartmental loan payable to the Enterprise Zone division for renovations to the Bridgeworks Industrial Center. The loan is payable in monthly installments of \$1,574 including principal and interest at 3% through June 2015. Loan payments, when collected, are classified as part of the Corporation's permanently restricted net assets. The loan balance at June 30, 2003 is \$190,178.

The general division also has an interdepartmental loan payable to the Revolving Loan Fund for roof repairs on a building at Lehigh Landing. The loan is payable in monthly installments of \$1,887, including principal and interest, over a five year period commencing upon rental of the building. The loan balance at June 30, 2003 is \$100,000.

All of the above interdepartmental loans and related interest income/expenses have been eliminated in combination.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2003 AND 2002**

**NOTE 10 Notes and Mortgages Payable**

	<u>June 30,</u>	
	<u>2003</u>	<u>2002</u>
Mortgage payable to bank, secured by land and buildings of Industrial Center and Business Incubator and guaranteed by the City of Allentown; payable in 240 monthly installments of \$24,650 including principal and interest at 8.16% through July 2017; loan agreement required the establishment of certain escrow accounts subject to specified withdrawal restrictions; Corporation is also required to comply with certain continuing loan provisions	\$ 2,361,142	\$ 2,457,218
Mortgage payable to Pennsylvania Industrial Development Authority, secured by participating first mortgage on land and buildings of Industrial Center Project; payable in monthly installments of \$12,758 including principal and interest at 3% through November 2010	1,016,901	1,137,525
Mortgage payable to Pennsylvania Industrial Development Authority, secured by second-lien mortgage on land and buildings of Industrial Center Project; payable in monthly installments of \$2,740 including principal and interest at 3% through November 2010	218,402	244,308
Mortgage payable to Pennsylvania Power and Light Company, secured by tract of land in Industrial Center Project; payable without interest in 120 monthly installments of \$2,084 through December 2005	62,440	87,448
Mortgage payable to Ben Franklin Partnership Fund, secured by land and building; subordinate to bank indebtedness; interest rate at 5.5%; principal and interest payable in monthly installments of \$2,518 with final payment due July 2008; paid in full in June 2003	0	155,932

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2003 AND 2002**

**NOTE 10 Notes and Mortgages Payable (Continued)**

	<u>June 30,</u>	
	<u>2003</u>	<u>2002</u>
Mortgage payable to bank in original amount of \$3,325,000 for renovations to Portland Place; construction loan converting to 10 year permanent first mortgage; secured by land and buildings and guaranteed by the City of Allentown; interest at the London Interbank Offered Rate plus 1.75%; payable in 108 principal and interest monthly installments of \$23,578, with all remaining interest and principal due at maturity in March 2009; paid in full at sale of the property in January 2003	\$ 0	\$ 3,257,564
	3,658,885	7,339,995
Current maturities	<u>280,328</u>	<u>325,320</u>
	<u>\$ 3,378,557</u>	<u>\$ 7,014,675</u>

The annual requirements to pay principal and interest on indebtedness outstanding at June 30, 2003 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2004	\$ 280,328	\$ 226,461	\$ 506,789
2005	293,887	212,902	506,789
2006	295,772	198,433	494,205
2007	298,798	182,982	481,780
2008	315,306	166,475	481,781
Thereafter	<u>2,174,794</u>	<u>670,706</u>	<u>2,845,500</u>
	<u>\$3,658,885</u>	<u>\$1,657,959</u>	<u>\$ 5,316,844</u>

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2003 AND 2000**

**NOTE 11      Commitments and Contingencies**

**Seventh Street Project**

The Corporation has agreements with the City of Allentown and the Redevelopment Authority of the City of Allentown (ARA) whereby the Corporation and ARA have purchased several properties along N. 7<sup>th</sup> Street, Allentown, PA, to develop and market the site for private development. Due to a February 1994 sinkhole disaster on N. 7<sup>th</sup> Street, several properties were demolished.

A geotechnical investigation concluded that the site can be used for both light building or multi-story buildings. However detailed foundation studies are necessary.

AEDC's management believes the site's value may be impaired by the disaster. Since the foundation studies have not commenced, the amount of any loss is not yet determinable.

**Lehigh Landing Riverfront Project**

The Corporation entered into an agreement with the City of Allentown and the Allentown Commercial and Industrial Development Authority (ACIDA) whereby the parties have agreed to purchase, manage and maintain specific properties along the area known as the Riverfront in Allentown, PA. The Corporation and ACIDA have agreed to pursue funding sources to rehabilitate and convert these properties into a transportation museum and visitors' center.

In March 1992, ACIDA purchased and subsequently agreed to lease to the Corporation a building which is included in the project. The lease agreement has been accounted for as a capital acquisition.

During 1992, an area bank assigned a mortgage receivable to the Corporation from an insolvent mortgagee for which the security is another property which is included in the project. Foreclosure proceedings were completed in August 1995. The property securing the mortgage was transferred to ACIDA with a lease to the Corporation. The lease agreement has been accounted for as a capital acquisition.

In May 1994, ACIDA entered into an agreement to acquire real estate for an aggregate purchase price of \$175,000. The acquisition was completed in August 1994, with the purchase funded by the Corporation. The property is leased to the Corporation. The lease agreement has been accounted for as a capital acquisition.

The Corporation has secured federal grant funding through an agreement with the City of Allentown of \$4,000,000 for demolition, remediation, and the design and installation of improvements as part of the Lehigh Landing Project. In addition, the Corporation has received \$2,930,665 of grant funds provided by the City of Allentown and the Commonwealth of Pennsylvania through various state and federal revitalization programs. An additional \$70,000 in state grant funds committed for visitor center exhibitry has been transferred to the Lehigh County Historical Society.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2003 AND 2002**

**NOTE 11 Commitments and Contingencies (Continued)**

**Other Downtown Projects**

In December 1995, a building was donated to the Corporation at the appraisal amount of \$575,000. The building is called Portland Place and has been renovated to serve as a workforce training and development center. Renovations were completed utilizing funding from the City of Allentown, County of Lehigh, and various corporate and internal sources. Portland Place is occupied by Lehigh Carbon Community College and the corporation's own offices. The property had capitalized value of \$4,612,329 at time of sale to Lehigh Carbon Community College in January 2003. Land and garage at 24-30 South Hall Street were retained.

During the period from March 1997 through November 1998, ACIDA purchased and subsequently leased to the Corporation six properties in the 800 block of Hamilton Street. All lease agreements have been accounted for as capital acquisitions. In January 2003, two properties were conveyed to a private developer, with others being held for future development.

In June 2000, several properties on N. 8<sup>th</sup> Street were conveyed to ACIDA by the Allentown Parking Authority and the Allentown Redevelopment Authority as part of a site assembly for the Ninth and Hamilton Street Project. They were subsequently leased to AEDC and are being held for future development. A portion of the site is under grant of easement to PPL Energy Plus LLC, for utilization in the development of their project.

In March 2001, ACIDA purchased and subsequently leased to the Corporation a property at 612 Hamilton Street (former Schoen's Building). The lease agreement has been accounted for as a capital acquisition. The property is being held for future development.

**ACIDA**

The Allentown Commercial and Industrial Development Authority (ACIDA) was created by Allentown City Council to provide tax-exempt commercial and industrial financing for projects within the City of Allentown.

Through ACIDA's participation with the Allentown Economic Development Corporation (AEDC), a full range of services is available to prospective clients in addition to low-cost financing. AEDC provides the staff for ACIDA and explores all sources of public and private financing for various projects, assists in the structuring and packaging of financing tailored to the specific needs of the project, assists in locating sites, negotiating leases or sales agreements and acts as liaison with state, county, and city regulatory agencies.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2003 AND 2002**

**NOTE 11 Commitments and Contingencies (Continued)**

In accordance with an agreement, as compensation to AEDC for providing staff services, ACIDA is required to pay AEDC all of the fees received by ACIDA from its operations over and above those funds expended by ACIDA for necessary expenses other than staff services.

For the year ended June 30, 2003, total revenues from operations are \$3,139 less than those funds expended by ACIDA for necessary expenses other than staff services and, accordingly, a subsidy in that amount has been provided to ACIDA.

**NOTE 12 Equity Fund Loan Programs**

The City of Allentown has provided the Corporation with "revolving" equity funds of \$845,000 for the purpose of financing SBA 502, 503, 504 loans (\$160,000), Neighborhood Business Revitalization loans (\$505,000), and Downtown Renaissance loans (\$180,000).

**NOTE 13 Supplemental Disclosures of Cash Flow Information**

	<b>Years Ended</b>	
	<b>June 30,</b>	
	<b>2003</b>	<b>2002</b>
Cash Paid during the Year for Interest	<u>\$ 661,380</u>	<u>\$ 519,803</u>

**NOTE 14 Revenue Concentrations**

The Corporation receives a substantial portion of its revenue from governmental grants from the Commonwealth of Pennsylvania and administered by the City of Allentown. At June 30, 2003 and 2002, the support from the Commonwealth and the City aggregated \$307,741 and \$1,860,826, respectively.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2003 AND 2002**

**NOTE 15 Rental Income**

The Corporation leases light industrial and warehouse space in its Bridgeworks buildings (Industrial Center and Incubator) under noncancellable operating leases requiring monthly payments with lease terms ending from April 2004 to June 2007 and from July 2003 to February 2006, respectively. Industrial Center rental income is derived from four tenants. Future minimum rentals under leases at June 30, 2003, not including renewal actions, are as follows:

	<b>Industrial</b>		
	<b><u>Center</u></b>	<b><u>Incubator</u></b>	<b><u>Total</u></b>
2004	\$ 443,359	\$ 165,638	\$ 608,997
2005	140,834	99,359	240,193
2006	145,059	57,267	202,326
2007	<u>149,411</u>	<u>7,340</u>	<u>156,751</u>
	<u>\$ 878,663</u>	<u>\$ 329,604</u>	<u>\$ 1,208,267</u>

**NOTE 16 Retirement Plan**

The Company has a qualified retirement plan under Section 403(b) of the Internal Revenue Code. The plan provides that eligible employees of the Company may contribute to the plan a percentage of their annual gross compensation. The Company, at its discretion, may make contributions to the plan. During the years ended June 30, 2003 and 2002, the Company made contributions aggregating \$15,027 and \$18,835, respectively.

**NOTE 17 Restrictions on Net Assets**

Net assets include temporarily restricted net assets available for the following purposes.

	<b><u>June 30,</u></b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>
Lehigh Landing	\$ 55,372	\$ 105,372
Portland Place Project	0	31,549
Downtown Partnership	<u>5,714</u>	<u>5,942</u>
	<u>\$ 61,086</u>	<u>\$ 142,863</u>

Also, net assets include City of Allentown grants which are permanently restricted to operating the Enterprise Zone Revolving Loan program.

	<b><u>June 30,</u></b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>
Enterprise Zone Loans (see Note 8)	\$ 590,931	\$ 392,565
AEDC Interfund Loan (see Note 9)	190,054	203,061
Loan Pool and Accounts Receivable	<u>86,001</u>	<u>245,640</u>
	<u>\$ 866,986</u>	<u>\$ 841,266</u>

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2003 AND 2002**

**NOTE 18    Subsequent Event**

**Bridgeworks Industrial Center**

The Corporation entered into agreements of sale dated June 9, 2003 to convey the Bridgeworks Industrial Center to a private developer for the purchase price of \$4,436,000 and a 7.66 acre parcel of land immediately adjacent to that property for \$364,000. Closing on the agreements is anticipated during the next fiscal year.

**SBA 504 Loan Program Transfer**

On August 27, 2003, the Corporation entered into an agreement with the Lehigh Valley Economic Development Corporation (LVEDC) to transfer the administration and marketing of the SBA 504 Loan Program to LVEDC. Transfer is contingent and is not to commence until receipt of the SBA's approval for LVEDC's program certification and the Corporation's portfolio transfer (decertification). It is anticipated that the transfer will commence sometime during the next fiscal year.

# CONCANNON GALLAGHER MILLER & COMPANY, P. C.

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

Michael J. Gallagher, CPA	Howard D. Gneiding, CPA	Victor J. Meyer, CPA	Anthony M. Bragano, CPA
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E. Barry Hetzel, CPA	Robert E. Vitale, CPA	Gerard D. Stanus, CPA	Anthony R. Deutsch, CPA
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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors  
Allentown Economic Development Corporation

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole of Allentown Economic Development Corporation for the years ended June 30, 2003 and 2002 which are presented in the preceding section of this report. The following supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Concannon, Gallagher, Miller & Company, P.C.*

Allentown, PA  
August 29, 2003

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**  
**COMBINING SCHEDULES OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**GENERAL OPERATIONS FUNDING**  
**YEARS ENDED JUNE 30, 2003 AND 2002**

	2003 Combined Total	General Division	Finance Division	Bridgework: Industrial Center	2002 Combined Total	General Division	Finance Division	Bridgework: Industrial Center
<b>SUPPORT AND REVENUE</b>								
Support								
Funding from City								
Operations - CDBG	\$ 173,493	\$ 173,493			\$ 232,266	\$ 232,266		
Contributions and grants	2,690	2,690			10,730	10,730		
Membership dues	40,300	33,046	7,254		72,425	57,940	14,485	
	<u>216,483</u>	<u>209,229</u>	<u>7,254</u>	<u>0</u>	<u>315,421</u>	<u>300,936</u>	<u>14,485</u>	<u>0</u>
Revenue								
Fees and service charges	99,963		99,963		100,588		100,588	
Interest	35,097	34,548		549	45,954	42,678		3,276
Management fee income	24,000	12,000	12,000		24,000	12,000		
Miscellaneous income								
Professional services	32,495	32,495			25,275	25,275		
Rental income	862,780			862,780	826,244			826,244
	<u>1,054,335</u>	<u>46,548</u>	<u>144,458</u>	<u>863,329</u>	<u>1,022,061</u>	<u>54,678</u>	<u>137,863</u>	<u>829,520</u>
	<u>1,270,818</u>	<u>255,777</u>	<u>151,712</u>	<u>863,329</u>	<u>1,337,482</u>	<u>355,614</u>	<u>152,348</u>	<u>829,520</u>
Total Support and Revenue								
	332,314	189,296	79,713	63,305	353,343	231,877	86,228	35,238
	2,435	1,252	1,183		8,545	6,917	1,628	
	168,128	3,440	3,440	161,248	172,659	4,768	4,768	163,123
	1,355	794	561		1,365	821	544	
	42,675	15,586	3,897	23,192	35,052	11,911	2,978	20,163
	245,980			245,980	262,323			262,323
	1,047		1,047		1,682		1,682	
	16,640	13,843	2,739	60	17,642	14,041	3,529	72
	53,967	36,891	2,144	14,932	44,025	22,722	1,282	20,021
	3,739		3,739		5,047		5,047	
	47,323			47,323	41,152			41,152
	54,545	43,636	10,909		54,545	43,636	10,909	
	25,524	383	78	25,063	24,995	173	43	24,779
	16,747	6,095	607	10,045	16,100	6,803	655	8,642
	2,565	1,065	1,500		2,465	965	1,500	
					300		300	
	4,351	3,872	479		5,623	4,650	973	
	<u>1,019,335</u>	<u>316,153</u>	<u>112,036</u>	<u>591,148</u>	<u>1,046,863</u>	<u>349,284</u>	<u>122,066</u>	<u>575,513</u>
Travel and meetings								
Total Expenses								
	251,483	\$ (60,376)	\$ 39,676	\$ 272,181	290,619	\$ 6,330	\$ 30,282	\$ 254,007
<b>CHANGE IN NET ASSETS</b>								
	2,060,920				1,770,301			
<b>NET ASSETS, JULY 1</b>								
<b>NET ASSETS, JUNE 30</b>	<u>\$ 2,312,403</u>				<u>\$ 2,060,920</u>			

**ALLETOWN ECONOMIC DEVELOPMENT CORPORATION  
COMBINING SCHEDULES OF ACTIVITIES AND NET ASSETS  
PROJECT FUNDING  
YEARS ENDED JUNE 30, 2003 AND 2002**

	2003 Combined Total	Business Incubator	Enterprise Zone	Portland Place	Lehigh Landing	Loans and Funded Projects	2002 Combined Total	Business Incubator	Enterprise Zone	Portland Place	Lehigh Landing	Loans and Funded Projects
<b>SUPPORT AND REVENUE</b>												
Support												
Funding from City												
Operations - CDBG	\$ 34,297	\$ 9,497			\$ 12,316	\$ 12,484	\$ 137,058	\$ 48,199			\$ 45,768	\$ 43,091
Project funding	37,624				9,307	28,317	205,873				156,078	49,795
Enterprise Zone	47,676	47,676			5,051	9,600	42,407	42,407			1,092,141	151,081
State and federal funding	14,651					52,375	1,243,222	20,000				1,607,231
Contributions and grants	72,375	20,000				1,627,231	1,827,231	20,000				1,851,198
	<u>206,623</u>	<u>29,497</u>	<u>47,676</u>		<u>26,674</u>	<u>102,776</u>	<u>3,255,791</u>	<u>68,199</u>	<u>42,407</u>		<u>1,293,987</u>	<u>1,851,198</u>
Revenue												
Interest	57,498	222	21,356	1,697	1,899	32,324	82,622	1,577	21,251	3,050	3,872	52,872
Miscellaneous Income	1,181	1,171	10				1,800	1,800				
Professional Services	300		300									
Rental Income	488,075	184,443		291,632		12,000	791,993	207,170		494,873		29,950
	<u>547,054</u>	<u>185,836</u>	<u>21,666</u>	<u>293,329</u>	<u>1,899</u>	<u>44,324</u>	<u>816,415</u>	<u>210,547</u>	<u>21,251</u>	<u>497,923</u>	<u>3,872</u>	<u>82,822</u>
Total Support and Revenue	<u>753,677</u>	<u>215,333</u>	<u>69,342</u>	<u>293,329</u>	<u>28,573</u>	<u>147,100</u>	<u>4,072,206</u>	<u>278,746</u>	<u>63,658</u>	<u>497,923</u>	<u>1,297,859</u>	<u>1,934,020</u>
<b>EXPENSES</b>												
Administrative services and related costs	151,066	38,957	40,930	51,611	9,784	9,784	190,631	49,969	41,035	14,502	40,449	44,676
Advertising, promotion and marketing	1,464	744	720				2,585	2,124				461
Bad Debts							90,180	90,180				
Commissions	1,038	1,038										
Contributions	50,000											
Depreciation and amortization	154,827	51,501	75	103,251			203,235	51,305	90	151,840		
Dues and subscriptions	143	143					317	317				
Insurance	44,311	14,052		6,344	9,969	13,946	43,448	11,890		9,787	8,519	13,252
Interest	403,076	8,492		394,584			263,008	9,207		249,778	4,023	
Loan packaging expense	190		190						432			
Office supplies and related expenses	5,013	4,669	299	4,160	32	13	5,857	4,528		3,310	736	161
Professional fees-funded studies and other	78,940	2,184			6,698	65,898	65,923	4,369			12,074	46,170
Program Expense	122,841	868	300				2,526					2,526
Real estate and other taxes	31,178			31,160		18	47,986			47,986		
Rent	3,600			3,600			3,600			3,600		
Repair, maintenance and miscellaneous	86,141	52,048		26,478	3,576	4,039	108,749	52,177		40,169	3,662	12,741
Telephone and utilities	147,308	112,800		21,941	7,292	5,275	141,984	98,099		30,284	5,895	7,706
Trade Associations	225	225					195	195				
Training and professional development	626	35	591				1,943	1,543	400			
Travel and meetings	377	257	53			67	248	123				
Total Expenses	<u>1,282,364</u>	<u>288,013</u>	<u>43,158</u>	<u>643,129</u>	<u>87,351</u>	<u>220,713</u>	<u>1,172,415</u>	<u>376,026</u>	<u>41,957</u>	<u>551,256</u>	<u>75,358</u>	<u>127,818</u>
CHANGE IN NET ASSETS BEFORE LOSS ON SALE	(528,687)	(72,680)	26,184	(349,800)	(58,778)	(73,613)	2,899,791	(97,280)	21,701	(53,333)	1,222,501	1,806,202
LOSS ON SALE OF ASSETS	(444,029)			(174,110)		(269,919)	(1,800,357)					(1,800,357)
CHANGE IN NET ASSETS	<u>(972,716)</u>	<u>(72,680)</u>	<u>26,184</u>	<u>(523,910)</u>	<u>(58,778)</u>	<u>(343,532)</u>	<u>1,099,434</u>	<u>(97,280)</u>	<u>21,701</u>	<u>(53,333)</u>	<u>1,222,501</u>	<u>5,845</u>
<b>NET ASSETS, JULY 1</b>	14,514,396	234,758	849,672	1,222,536	6,842,057	5,365,373	13,414,962	392,038	827,971	1,275,869	5,619,556	5,359,528
<b>NET ASSETS, JUNE 30</b>	<u>\$ 13,541,680</u>	<u>\$ 162,078</u>	<u>\$ 875,856</u>	<u>\$ 698,626</u>	<u>\$ 6,783,279</u>	<u>\$ 5,021,841</u>	<u>\$ 14,514,396</u>	<u>\$ 234,758</u>	<u>\$ 849,672</u>	<u>\$ 1,222,536</u>	<u>\$ 6,842,057</u>	<u>\$ 5,365,373</u>

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