

# **CITY OF ALLENTOWN**

ALLENTOWN, PENNSYLVANIA

## ***COMPREHENSIVE ANNUAL FINANCIAL REPORT***



**For the year ended  
December 31, 2005**

**CITY OF ALLENTOWN, PENNSYLVANIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2005**



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

Reinsel Kuntz Leshner, LLP

Independent Auditors

**This Report was prepared by  
The Department of Finance  
Lawrence F. Hilliard, Director of Finance  
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, 2005**

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June 30, 2006

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, 2005 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 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

Internal Controls: 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 generally accepted accounting principles. 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 for 2005.

Budgetary 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.

Encumbrance Accounting: 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 Reinsel Kuntz Leshner was selected by City Council in 2006 to perform the annual audit for fiscal years 2005 through 2007. 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.

Initiatives for the Year: The focus of the 2005 City Administration was on the revitalization of the City of Allentown: To reestablish Allentown as a safe city by implementing strategies to restructure our police force and take control over crime. Allentown's Police Department was granted state certification in early 2005. The Fire department assumed leadership over Emergency

Management training and established Allentown as a leader in certified employees.

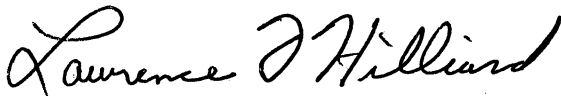
In addition to continuing efforts in public safety, Allentown has maintained an aggressive redevelopment effort under the guidance of the Community and Economic Development Department. The work of this organization, supported by numerous legislature and civic leaders has resulted in several diverse economic development projects that are now underway in Allentown's downtown, with more prospective development in the planning stages.

As the City's 2005 financial condition deteriorated, budgetary and cost control initiatives were undertaken. Late in 2005, the incoming City Administration presented a revised budget, reflecting substantial cost reductions and revenue initiatives to address the financial situation. Early in 2006, the new City Administration implemented additional cost containment measures and revenue generating efforts.

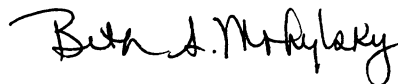
Acknowledgments: The timely preparation of the comprehensive annual financial report was made possible by the dedicated service of the entire staff of the Department of Finance. We would especially like to express our appreciation to the following staff members who assisted and contributed so significantly to its preparation: Michael T. Sinclair, Mark W. Sivak and Daniel B. Eddinger.

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,



Lawrence F. Hilliard  
Director of Finance



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, 2004

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.

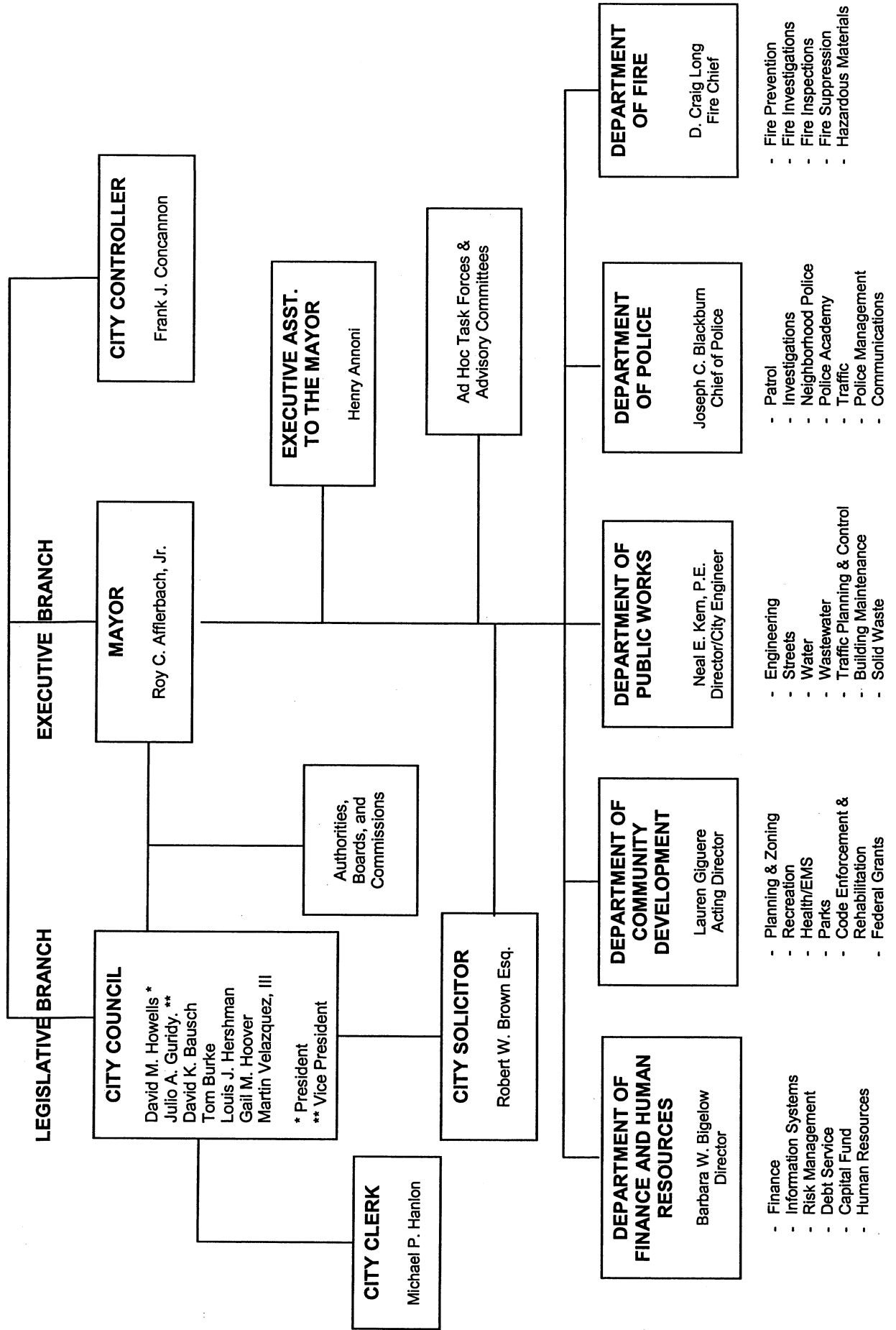


President

Executive Director

# CITY OF ALLENTOWN

## THE VOTERS OF ALLENTOWN



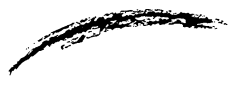
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## INDEPENDENT AUDITORS' REPORT

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Allentown, Pennsylvania, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Allentown's management. Our responsibility is to express opinions 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, 2005 and December 31, 2005, respectively, which represent 99 percent of the assets of the discretely presented component units column and 89 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 reports 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Allentown, Pennsylvania as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying required supplementary information, such as Management's Discussion and Analysis ("MD&A") on pages 8-22, budgetary comparison information on pages 78-92 and pension information on pages 94-96 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 required 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's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section 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.

*Reinsel Kuntz Lesher LLP*

Allentown, Pennsylvania  
June 9, 2006

**CITY OF ALLENTOWN, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**INTRODUCTION**

This Management Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the City of Allentown (the City) for the year ended December 31, 2005. We recommend that it be read in conjunction with the accompanying basic financial statements and notes to financial statements in order to obtain a thorough understanding of the City's financial condition at December 31, 2005. 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 2005, the City's total net assets increased by \$13,097,154. Net assets of governmental activities increased \$8,107,414 and net assets of business-type activities increased \$4,989,740.

Property tax rates increased to 17.52 mills in 2005.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of this report consists of four parts:

- Management's discussion and analysis (this section)
- Government-wide financial statements (including notes)
- Required supplementary information
- Supplementary information

Management's discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand the City government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial data provided in the government-wide and fund financial statements. Required supplementary information is provided on the City's pension plan and budget-to-actual figures for major funds. In addition to these required elements, an optional supplementary section is included with combining and other statements that provide particulars about non-major funds.

The basic financial statements present two different views of the City.

- *Government-wide financial statements*, the first two statements, provide a broad overview of the City's overall financial status as well as the financial status of the City's component units, in a manner similar to private-sector business.

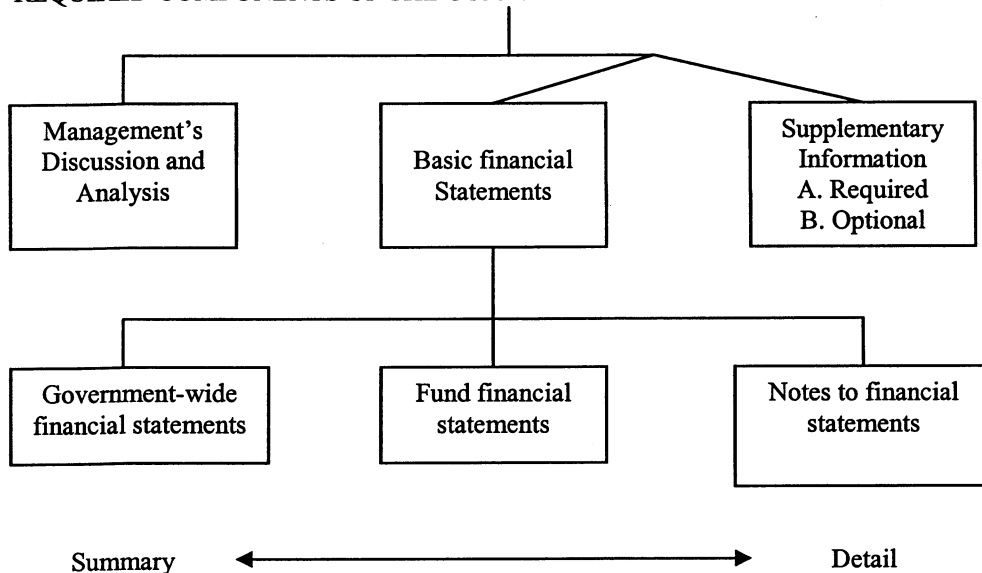
City of Allentown, Pennsylvania  
Management Discussion and Analysis  
(Unaudited)

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- *Fund financial statements*, the remaining statements, focus on individual parts of City government. They provide more detail on operations than the government-wide statements. There are three types of fund financial statements:
  - *Governmental funds statements* show how general government services such as public safety were financed in the short term, as well as what remains for future spending.
  - *Proprietary funds statements* offer short-term and long-term financial information about the activities the City operates like a business, such as the Water Fund.
  - *Fiduciary funds statements* reflect activities involving resources that are held by the City as a trustee or agent for the benefit of others, including the City's retirement plans. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support the City's programs.

Table A-1 shows how the various parts of this annual report are arranged and related to one another.

REQUIRED COMPONENTS OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT



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

Table A-2 summarizes the major features of the City's financial statements, including the area of the City's activities they cover and the types of information they contain.

**Table A-2: Major features of the government-wide and fund financial statements**

	<b>Government-wide statements</b>	<b>Fund financial statements</b>		
		<b>Governmental</b>	<b>Proprietary</b>	<b>Fiduciary</b>
<b>Scope</b>	Entire entity and component units (except fiduciary funds)	The day-to-day operating activities of the City, such as public safety and public works	The activities of the City, such as the Water Fund	Instances in which the City administers resources on behalf of others, such as the employee pension plans
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement revenues, expenditures and changes in fund balance</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of asset and liability information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term; funds do not contain capital assets, although they can
<b>Type of inflow and outflow information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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

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The remainder of this overview explains the structure and contents of the government-wide and fund financial statements.

**Government-wide financial statements**

Government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

- The statement of net assets includes all of the City's assets and liabilities, except fiduciary funds, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business.
- The statement of activities focuses on how the City's net assets changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has had to rely on local taxes for funding.

All changes to net assets are recorded using the accrual method of accounting, which requires that revenues be recorded when they are earned and expenses be recorded when the goods and/or services are received, regardless of when cash is received or paid.

Net assets are one way to measure the City's financial position. Over time, increases or decreases in the City's net assets are one indicator of whether the City's financial position is improving or deteriorating. However, other non-financial factors such as changes in the City's real property tax base and general economic conditions must be considered to assess the overall position of the City.

The primary government and its component units are included in the government-wide financial statements. Component units reflect the activities of legally separate government entities over which the City can exercise influence and/or be obligated to provide financial support. The City has three discretely presented component units including the Allentown Parking Authority, the Allentown Redevelopment Authority, and the Allentown Economic Development Corporation. Complete and detailed financial statements are included in the appendix to this document.

There are two categories of activities for the primary government.

- *Governmental activities* include the City's basic services such as general government, public safety, community development, public works, health and sanitation, parks and recreation. Property taxes and operating grants and revenues finance most of these activities.
- *Business-type activities* such as the water fund, the sewer fund, the solid waste fund, and the municipal golf course fund charge a fee to customers to help cover the cost of services.

Net assets of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) are

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

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expended to purchase or build assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. Principal and interest payments are both considered expenditures when paid. Depreciation is not calculated as it does not provide or reduce current financial resources. Finally, capital assets and long-term debt do not affect fund balances.

Government-wide statements are reported using an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the statement of net assets:

- Capitalize current outlays for capital assets
- Report long-term debt as a liability
- Depreciate capital assets and allocate the depreciation to the proper program/activities
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting
- Allocate net asset balances as follows:
  - Net assets invested in capital assets, net of related debt
  - Restricted net assets are those with constraints placed on their use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation
  - Unrestricted net assets are net assets that do not meet any of the above restrictions.

#### **Fund financial statements**

Fund financial statements provide more detailed information on the City's most significant funds, *not the City as a whole*. Funds are accounting devices, i.e., a group of related accounts that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law. Other funds are established to control and manage resources designated for specific purposes. Fund financial statements are reported using current financial resources and modified accrual accounting established by the Government Accounting Standards Board (GASB) for governments.

The City has three kinds of funds:

- *Governmental funds* include most of the City's basic services and focus on: (1) the flow in and out of cash and other financial assets that can be readily converted to cash, and (2) the balances left at year-end that are available for spending. The six governmental funds that the City maintains (General, Pennsylvania Motor, Community Development Block Grant, Trexler Fund, Capital Projects, and Debt Service) are reported using the modified accrual accounting basis, and a current financial resources measurement focus.

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

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Consequently, the governmental funds statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the City's programs.

The relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

The City adopts an annual budget for the general, Pennsylvania motor, debt service and capital project funds, as required by state law. Budgetary comparisons are presented as required supplementary information.

- *Proprietary funds* report business-type programs and activities that charge fees designed to cover the cost of providing services. They report using full accrual accounting.
- *Fiduciary funds* are funds for which the City is the trustee or fiduciary. These include the Police Pension Fund, the Firemens' Pension Fund and the Officers and Employees' Pension Fund and certain agency funds or clearing accounts for assets held by the City in its role as custodian until the funds are allocated to the private parties, organizations or government agencies to which they belong. The City is responsible to ensure the assets reported in these funds are used for their intended purposes. This fiduciary activity is reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

### Net Assets

The City of Allentown's total assets were \$216.2 million at December 31, 2005. Of this amount, \$179.6 million was capital assets, including infrastructure and construction in progress. Prior to the adoption of GASB No. 34 in 2003, infrastructure (roads, bridges, etc.) had not been reported or depreciated in governmental financial statements.

GASB No. 34 required that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements, but allowed infrastructure to be added over several years. The City believes it has included all infrastructure in the 2005 financial statements.

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

**Table A-3: Condensed statement of net assets**

	Governmental Activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other Assets	\$ 7,838,753	\$ 7,319,371	\$ 17,291,856	\$ 17,581,852	\$ 25,130,609	\$ 24,901,223
Capital assets, net	80,286,995	78,887,873	99,378,086	101,151,923	179,665,081	180,039,796
Other non-current Assets	9,008,575	8,408,074	2,426,389	2,707,239	11,434,964	11,115,313
<b>Total assets</b>	<b>\$97,134,323</b>	<b>\$94,615,318</b>	<b>\$119,096,331</b>	<b>\$121,441,014</b>	<b>\$216,230,654</b>	<b>\$216,056,332</b>
Current and other Liabilities	\$ 11,987,404	\$ 11,112,755	\$ 8,815,206	\$ 9,793,693	\$ 20,802,610	\$ 20,906,448
Long-term liabilities	86,770,631	93,257,159	40,220,677	46,576,613	126,991,308	139,833,772
<b>Total liabilities</b>	<b>\$98,758,035</b>	<b>\$104,369,914</b>	<b>\$ 49,035,883</b>	<b>\$ 56,370,306</b>	<b>\$147,793,918</b>	<b>\$160,740,220</b>
Net assets:						
Invested in capital assets, net of debt	\$ 26,835,473	\$ 20,907,099	\$ 53,403,909	\$ 48,253,494	\$ 80,239,382	\$ 69,160,593
Restricted net assets	8,910,203	8,421,791			8,910,203	8,421,791
Unrestricted net (deficit) assets	(37,369,388)	(39,083,486)	16,656,539	16,817,214	(20,712,849)	(22,266,272)
<b>Total net (deficit) assets</b>	<b>\$ (1,623,712)</b>	<b>\$ (9,754,596)</b>	<b>\$ 70,060,448</b>	<b>\$ 65,070,708</b>	<b>\$ 68,436,736</b>	<b>\$ 55,316,112</b>

During 2005 net assets increased \$13.1 million or 19.2% to \$68.4 million. Of this amount, \$80.2 million represents the net balance of long-term capital assets and long-term debt, while \$8.9 million is restricted for various purposes.

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**Table A-4: Changes in net assets**

The following statement of activities represents changes in net assets for the year ended December 31, 2005. It shows revenues by source and expenses by function for governmental activities, business-type activities and the government as a whole.

	Governmental Activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Program revenues:</b>						
Charges for services	\$ 11,191,479	\$ 8,277,661	\$ 41,267,037	\$ 38,180,756	\$ 52,458,516	\$ 46,458,417
Operating grants and contributions	11,592,544	7,703,267	1,025,750	1,571,561	12,618,294	9,274,828
Capital grants	2,845,673	1,779,448	152,000		2,997,673	1,779,448
<b>General revenues:</b>						
Taxes	46,918,139	40,058,771			46,918,139	40,058,771
Investment earnings	596,402	499,128	111,315	175,656	707,717	674,784
Unrestricted grants	6,065,052	6,833,526			6,065,052	6,833,526
<b>Total revenues</b>	<b>79,209,289</b>	<b>65,151,801</b>	<b>42,556,102</b>	<b>39,927,973</b>	<b>121,765,391</b>	<b>105,079,774</b>
<b>Expenses:</b>						
General government	8,363,679	6,645,606			8,363,679	6,645,606
Public safety	37,329,606	36,982,770			37,329,606	36,982,770
Community development	8,240,887	8,911,593			8,240,887	8,911,593
Public works	11,113,362	10,605,482			11,113,362	10,605,482
Health and sanitation	3,375,154	3,461,871			3,375,154	3,461,871
Parks and recreation	3,071,350	2,376,253			3,071,350	2,376,253
Other	339,076	9,498,938			339,076	9,498,938
Interest on long-term debt	3,940,612	3,115,775			3,940,612	3,115,775
Water fund			10,726,077	9,959,147	10,726,077	9,959,147
Sewer fund			11,898,997	11,422,394	11,898,997	11,422,394
Municipal golf course			851,582	925,727	851,582	925,727
Solid waste fund			9,417,855	9,316,884	9,417,855	9,316,884
<b>Total expenses</b>	<b>75,773,726</b>	<b>81,598,288</b>	<b>32,894,511</b>	<b>31,624,152</b>	<b>108,668,237</b>	<b>113,222,440</b>
<b>Change in net assets Before transfers</b>	<b>3,435,563</b>	<b>(16,446,487)</b>	<b>9,661,591</b>	<b>8,303,821</b>	<b>13,097,154</b>	<b>(8,142,666)</b>
<b>Transfers</b>	<b>4,671,851</b>	<b>3,427,863</b>	<b>(4,671,851)</b>	<b>(3,427,863)</b>		
<b>Change in net assets</b>	<b>8,107,414</b>	<b>(13,018,624)</b>	<b>4,989,740</b>	<b>4,875,958</b>	<b>13,097,154</b>	<b>(8,142,666)</b>
<b>Net assets beginning</b>	<b>(9,731,126)</b>	<b>3,264,028</b>	<b>65,070,708</b>	<b>60,194,750</b>	<b>55,339,582</b>	<b>63,458,778</b>
<b>Net assets ending</b>	<b>\$ (1,623,712)</b>	<b>\$ (9,754,596)</b>	<b>\$ 70,060,448</b>	<b>\$ 65,070,708</b>	<b>\$ 68,436,736</b>	<b>\$ 55,316,112</b>

Total government-wide revenues of \$121.7 million came primarily from charges for services of \$52.5 million, representing 43.1 percent of the total. Property taxes at \$46.9 million made up the second largest source at 38.5 percent, followed by operating and capital grants, and contributions of \$15.5 million, or 12.7 percent, and other revenue sources made up the remaining 5.7 percent.

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Total expenses for all programs in 2005 were \$108.7 million. The expenses cover a range of services, with the largest being public safety at \$37.3 million or 34.3 percent. The second largest program area was the sewer fund at \$11.9 million or 10.9 percent, followed by public works at \$11.1 million or 10.2 percent, the water fund at \$10.7 million or 9.8 percent, solid waste and recycling at \$9.4 million or 8.6 percent, general government at 8.4 million or 7.7 percent, community development at \$8.2 million or 7.5 percent, health and sanitation at \$3.4 million or 3.1 percent, parks at \$3.1 million or 2.9 percent, and the golf course at \$850 thousand or 0.8 percent. Interest on outstanding debt came to \$3.9 million or 3.2 percent, and other services made up the remaining 1 percent.

#### Net cost of services

Net cost of services expenses indicate the amount of support required from taxes and other general revenues for a program of the government. In 2005, real estate and Act 511 taxes brought in \$46.9 million. Of the \$6.7 million in other general revenues, \$4.6 million were general fund service charges. Table A-5 depicts the net program expenses for the years ended December 31 2005 and 2004.

**Table A-5: Net cost of governmental and business-type activities**

Program:	Total cost of services		Net cost of services	
	2005	2004	2005	2004
General government	8,363,679	\$ 6,645,606	\$ 7,168,348	\$ 5,521,874
Public safety	37,329,606	36,982,770	31,693,524	31,756,515
Community development	8,240,887	8,911,593	1,997,124	4,042,658
Public works	11,113,362	10,605,482	6,861,754	7,119,378
Health and sanitation	3,375,154	3,461,871	402,099	784,721
Parks and recreation	3,071,350	2,376,253	1,163,719	1,998,053
Other	339,076	9,498,938	(3,083,150)	9,498,938
Interest on long-term debt	3,940,612	3,115,775	3,940,612	3,115,775
Water fund	10,726,077	9,959,147	(3,717,953)	(4,346,693)
Sewer fund	11,898,997	11,422,394	(5,201,655)	(2,995,899)
Municipal golf course	851,582	925,727	(99,921)	(20,584)
Solid waste fund	9,417,855	9,316,884	(530,747)	(764,989)
Total expenses	\$108,668,237	\$113,222,440	\$ 40,593,754	\$ 55,709,747

The City relied on real estate tax, Act 511 taxes and other general revenues to fund 53.7% of its governmental and business-type activities in 2005.

Property taxes and other general revenues covered 66.2 percent of general government spending with the remainder coming from grants and fees for specific services. Nearly 84.9 percent of public safety spending came from the property tax and other general revenues with the remainder coming from grants, fines, and court costs. Property taxes covered 24.2 percent of community development costs, with the remainder coming from fees, charges for service, and \$4.1 million from Community Development Block Grant (CDBG) funding.

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Public works spending was partially funded through Commonwealth fuel tax revenues, with 61.7 percent coming from local property taxes and other general revenues. Health and sanitation received all but 12 percent of its revenue from program revenues, 84 percent of which was in the form of grants. Property taxes and other general revenues covered 38 percent of parks and recreation expenses.

Operations of the water fund and the sewer fund are entirely funded through charges for services, with excess revenues covering debt service costs. The municipal golf course is almost entirely reliant on fees for services. Solid waste fund expenses were funded at 94.3 percent through fees for service, with a grant making up the remainder of revenue.

### Capital Assets

The City's investment in capital assets at December 31, 2005, net of accumulated depreciation, was \$179.6 million. Capital assets consist primarily of land, buildings, equipment, and infrastructure. Table A-6 is a summary of capital assets at December 31, 2005 and 2004.

**Table A-6: Capital assets at December 31, 2005 and 2004**

	Governmental Activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Land and land improvements	\$9,119,896	\$ 9,154,896	\$ 3,759,048	\$ 3,759,048	\$ 12,878,944	\$ 12,913,944
Buildings and improvements	24,877,998	21,759,275	40,869,253	41,818,603	65,747,251	63,577,878
Vehicles, machinery and equipment	7,407,452	8,515,270	15,696,685	17,272,405	23,104,137	25,787,675
Distribution and collection systems			39,053,100	38,301,867	39,053,100	38,301,867
Infrastructure	38,881,649	39,458,432			38,881,649	39,458,432
<b>Total</b>	<b>\$ 80,286,995</b>	<b>\$ 78,887,873</b>	<b>\$99,378,086</b>	<b>\$101,151,923</b>	<b>\$179,665,081</b>	<b>\$180,039,796</b>

Detailed information about the City's capital assets can be found in Note 4, Notes to Financial Statements.

### Debt Administration

#### Long-term debt:

At December 31, 2005, the City had \$ 134.8 million of debt outstanding, including bonds, notes, and capital leases. This was a decrease of \$12.1 million from the previous year. Table A-7 provides a summary of outstanding debt.

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**Table A-7: Summary of outstanding debt**

	Governmental Activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Capital lease	\$ 1,272,836	\$ 1,663,615	\$ 2,689,177	\$ 3,298,664	\$ 3,962,013	\$ 4,962,279
Bonds and notes	52,178,685	56,317,159	43,285,000	49,599,765	95,463,685	105,916,924
Pension obligation bonds	35,335,000	35,985,000			35,335,000	35,985,000
Total	\$ 88,786,521	\$ 93,965,774	\$45,974,177	\$52,898,429	\$134,760,698	\$146,864,203

The amount of indebtedness a city may incur is limited by Pennsylvania law to 250 percent (non-electoral) and 350 percent (net non-electoral and lease rental) of a three-year average of the total revenue received, exclusive of governmental grants for a specific purpose. The City's non-electoral debt limit at December 31, 2005 was approximately \$162.9 million, and the total debt outstanding was \$49.8 million, which is below the legal debt limit. The City's net non-electoral and lease rental debt limit at December 31, 2005 was approximately \$228.1 million and the total debt outstanding was \$49.8 million. For computation purposes, these amounts have been reduced by \$35.3 million which is the outstanding balance of the 2004 GO bond issue used to finance the City's pension funding liability as allowed by statute.

Detailed information about the City's Long-term Debt can be found in Note 8, Notes to Financial Statements.

#### **Bond rating**

The City's bonds were downgraded in September 2005 by Standard and Poor's Rating Group from "A-" to "BBB+", due to rating agency concerns about ongoing weakness in financial operations.

### **GOVERNMENTAL FUNDS**

The City of Allentown uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of government funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, reserved/undesignated fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year. Governmental fund accounting was not affected by the adoption of GASB No. 34. Therefore a schedule is presented to reconcile the fund statements to the government-wide statements.

The City's governmental funds include the general fund, special revenue funds, and the capital projects fund. The general fund is the chief operating fund for the City. Special revenue funds are restricted to specific legislated use. The capital projects fund accounts for the proceeds of bond issues. The major funds are shown on the statement of revenues, expenditures and changes in fund balance in the financial statements.

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**Governmental fund revenues**

Governmental fund revenues by source for the years ended December 31, 2005 and December 31, 2004 were as follows. Table A-8 also presents changes from 2004 to 2005.

**Table A-8: Revenues by source, governmental funds**

	2005	2004	Changes from 2004 to 2005	Percent change
Revenues:				
Taxes	\$ 45,635,035	\$ 39,413,259	\$ 6,221,776	15.7
Licenses and permits	3,062,847	3,226,492	(163,645)	(5.1)
Charges for services	4,897,309	5,674,904	(777,595)	(13.7)
Fines and forfeits	555,898	701,001	(145,103)	(20.7)
Investment earnings	497,787	573,184	(75,397)	(13.2)
Intergovernmental revenues	18,944,800	14,946,143	3,998,657	26.8
Other	2,091,724	2,205,131	(113,407)	(5.1)
Total revenues	\$ 75,685,400	\$ 66,740,114	\$ 8,945,286	13.4

Governmental fund revenues totaled \$75.6 million for the year ended December 31, 2005. This is an increase of \$8.9 million from 2004, primarily due to increases in taxes and intergovernmental revenue.

**Governmental fund expenditures**

Governmental fund expenditures by function for the years ended December 31, 2005 and December 31, 2004 were as follows. Table A-9 also presents changes from 2004 to 2005.

**Table A-9: Expenditures by function, governmental funds**

	2005	2004	Changes from 2004 to 2005	Percent change
Expenses:				
General government	\$ 8,350,112	\$ 6,025,189	\$ 2,324,923	38.6
Public safety	36,144,138	35,623,754	520,384	1.5
Community development	8,159,802	8,816,554	(656,752)	(7.5)
Public works	8,952,519	8,432,129	520,390	6.2
Health and sanitation	3,322,865	3,401,766	(78,901)	(2.3)
Parks and recreation	2,323,552	1,497,280	826,272	55.2
Debt service:				
Principal	4,630,000	4,300,000	330,000	7.7
Interest	3,971,511	2,553,329	1,418,182	55.5
Capital outlay	6,765,457	9,031,443	(2,265,986)	(25.1)
Payment of bond issuance costs	0	932,830	(932,830)	(100.0)
Total expenses	\$ 82,619,956	\$ 80,614,274	\$ (2,005,682)	(2.5)

The City maintains six 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

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CDBG (community development block grant) fund, the Trexler fund, the debt service fund, and the Pennsylvania motor fund, all of which are considered to be major funds.

Governmental fund expenditures totaled \$82.6 million for the year ended December 31, 2005, an increase of 2.5 percent from 2004.

The \$2.3 million increase in general government reflects a continuing emphasis on community policing and the necessity to respond to demands for service.

The decrease in capital outlay is the result of decreased activity in capital projects and non issuance of new debt.

### Governmental fund balances

Table A-10 reflects ending balances for governmental funds and net assets for proprietary funds at December 31, 2005 and 2004.

**Table A-10: Ending fund balances, governmental funds**  
**Net assets, proprietary funds**

	2005		2004	
	Governmental funds	Proprietary funds	Governmental funds	Proprietary funds
General	\$ (2,711,620)		\$ (3,312,208)	
Pennsylvania Motor Fund	597,681		490,809	
Community Development Block Grant	8,000,683		7,930,982	
Trexler	316,657			
Capital Projects	3,360,267		6,650,139	
Water fund		\$ 39,140,555		\$ 37,053,136
Sewer fund		23,367,469		20,536,346
Municipal golf course		3,059,705		3,146,093
Solid waste fund		4,492,719		4,335,133
<b>Total</b>	<b>\$ 9,563,668</b>	<b>\$ 70,060,448</b>	<b>\$ 11,759,772</b>	<b>\$ 65,070,708</b>

The City's governmental funds reported a combined fund balance of \$9.5 million at December 31, 2005. Of the total, \$8 million is restricted for CDBG projects, \$3.3 million is restricted for capital projects, and the general fund shows a deficit of \$2.7 million,

The general fund balance deficit decreased by \$600 thousand, this is the first time in the last three years that the general fund operated at a surplus. The general fund is the chief operating fund of the City. At December 31, 2005 the total general fund balance was (\$2.7) million.

The City's capital projects fund holds bond proceeds and serves as the appropriation and funding repository for a variety of capital projects. Primary sources of revenue to this fund are receipts from residential curb and sidewalk construction and contributions from proprietary funds in support of appropriated projects.

### **Budgetary highlights**

The Allentown City Council may revise the budget through transfers or ordinance. There are two kinds of revisions:

- Allocations made to specific line items from other line items (internal transfers) or from contingency funds established in the budget
- New appropriations are budgeted when received, and the anticipated related expense is budgeted at the same time

Because the City is on a different fiscal year than the Commonwealth and the federal government, it is difficult to know what grants will be forthcoming in the City's fiscal year. Some revenue variances are due to budgeting for grants not received. Other revenue variances are based on grants received but not anticipated.

The general fund budget for revenues increased \$196 thousand during the year from the original budget of \$70.2 million to the final budget of \$70.4 million. Actual revenues were \$1.3 million below the final budget. Intergovernmental revenues were \$1.4 million higher than estimated due to timing of receipts. Tax receipts fell short of estimates by \$2.1 million.

The general fund budget for expenditures increased \$2.5 million during the year from the original budget of \$60.4 million to the final budget of \$62.9 million. Actual expenditures were \$2.6 million lower than the amended budget because of careful attention to expenditures in all areas.

Some large variances between general fund budgeted amounts and actual amounts on individual lines are due to the differences between budget methodology and accounting methodology.

The 2006 budget does not anticipate a real estate tax increase, but will further its attention to collection of delinquent receivables and controls on expenditures to negate the prior years' deficits.

### **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 2005, Allentown's economy rebounded modestly. A number of new development projects were initiated, particularly on Hamilton Street. The City was selected to have a Minor League AAA baseball franchise in 2008. The City remains in competition for a Slots Casino on the former Agere manufacturing site.

Fiscally, City expenses continued to increase at rates above 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. Revenue growth is below the rate of labor cost increases, resulting in structural deficit forecasts.

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, Olympus, and Agere have selected the area as their headquarters or as the location of principal facilities.

#### **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.

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**CITY OF ALLENTOWN, PENNSYLVANIA**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2005**

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 5,259,086	\$ 8,379,190	\$ 13,638,276	\$ 17,317,794
Receivables (net of allowance for uncollectibles):				
Taxes	945,836		945,836	
Loans				692,408
Accounts	40,353	7,655,919	7,696,272	
Grants	2,850,225		2,850,225	
Other current assets				401,297
Internal balances	<u>(1,256,747)</u>	<u>1,256,747</u>		
<b>Total current assets</b>	<u>7,838,753</u>	<u>17,291,856</u>	<u>25,130,609</u>	<u>18,411,499</u>
<b>NONCURRENT ASSETS:</b>				
Capital assets, net:				
Land	8,409,945	3,759,048	12,168,993	5,068,972
Property held for development	709,951		709,951	367,257
Buildings	8,916,752	22,716,647	31,633,399	8,980,713
Land and building improvements	9,231,156	17,700,911	26,932,067	3,531,569
Machinery and equipment	4,868,391	14,057,163	18,925,554	85,139
Vehicles	2,539,061	1,639,522	4,178,583	1,137,541
Distribution and collection systems		39,053,100	39,053,100	
Construction in progress	6,730,090	451,695	7,181,785	7,493,620
Infrastructure	<u>38,881,649</u>		<u>38,881,649</u>	
<b>Total capital assets, net</b>	<u>80,286,995</u>	<u>99,378,086</u>	<u>179,665,081</u>	<u>26,664,811</u>
Net pension asset	862,741		862,741	
Loans receivable	7,232,934		7,232,934	
Other assets	<u>912,900</u>	<u>2,426,389</u>	<u>3,339,289</u>	<u>1,866,735</u>
<b>Total noncurrent assets</b>	<u>89,295,570</u>	<u>101,804,475</u>	<u>191,100,045</u>	<u>28,531,546</u>
<b>TOTAL ASSETS</b>	<u>\$ 97,134,323</u>	<u>\$ 119,096,331</u>	<u>\$ 216,230,654</u>	<u>\$ 46,943,045</u>
<b>CURRENT LIABILITIES:</b>				
Accounts payable and other current liabilities	\$ 2,896,444	\$ 1,526,371	\$ 4,422,815	\$ 701,650
Wages payable	1,170,192	263,262	1,433,454	
Accrued interest payable	1,057,381	571,904	1,629,285	
Claims liability	1,794,160		1,794,160	
Other liabilities	822,024	61,635	883,659	1,000,135
Due to other governments	99,929		99,929	
Unearned revenue	628,467		628,467	
Capital leases payable	293,807	517,034	810,841	
Notes and bonds payable	<u>3,225,000</u>	<u>5,875,000</u>	<u>9,100,000</u>	<u>-</u>
<b>Total current liabilities</b>	<u>11,987,404</u>	<u>8,815,206</u>	<u>20,802,610</u>	<u>1,701,785</u>
<b>NONCURRENT LIABILITIES:</b>				
Capital leases payable	979,029	2,172,143	3,151,172	
Accrued vacation	1,467,242	638,534	2,105,776	
Unearned revenue	35,675		35,675	
Notes and bonds payable	<u>84,288,685</u>	<u>37,410,000</u>	<u>121,698,685</u>	<u>25,041,002</u>
<b>Total noncurrent liabilities</b>	<u>86,770,631</u>	<u>40,220,677</u>	<u>126,991,308</u>	<u>25,041,002</u>
<b>TOTAL LIABILITIES</b>	<u>98,758,035</u>	<u>49,035,883</u>	<u>147,793,918</u>	<u>26,742,787</u>
<b>NET ASSETS (DEFICIT):</b>				
Invested in capital assets, net of related debt	26,835,473	53,403,909	80,239,382	12,430,112
Restricted	8,910,203		8,910,203	
Unrestricted	<u>(37,369,388)</u>	<u>16,656,539</u>	<u>(20,712,849)</u>	<u>7,770,146</u>
<b>Total net assets (deficit):</b>	<u>(1,623,712)</u>	<u>70,060,448</u>	<u>68,436,736</u>	<u>20,200,258</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 97,134,323</u>	<u>\$ 119,096,331</u>	<u>\$ 216,230,654</u>	<u>\$ 46,943,045</u>

See Notes to Financial Statements

**CITY OF ALLENTOWN, PENNSYLVANIA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Primary government:				
Governmental activities:				
General government	\$ 8,363,679	\$ 1,097,664	\$ 97,667	
Public safety	37,329,606	4,710,383	755,880	\$ 169,819
Community development	8,240,887	1,575,685	4,106,697	561,381
Public works	11,113,362	454,628	1,687,507	2,109,473
Health and sanitation	3,375,154	151,448	2,821,607	
Parks and recreation	3,071,350	335,559	1,567,072	5,000
Other	339,076	2,866,112	556,114	
Interest on long-term debt	<u>3,940,612</u>			
Total governmental activities	75,773,726	11,191,479	11,592,544	2,845,673
Business-type activities:				
Water fund	10,726,077	14,380,000	64,030	
Sewer fund	11,898,997	17,052,181	48,471	
Municipal golf course	851,582	950,416	1,087	
Solid waste fund	<u>9,417,855</u>	<u>8,884,440</u>	<u>912,162</u>	<u>152,000</u>
Total business-type activities	<u>32,894,511</u>	<u>41,267,037</u>	<u>1,025,750</u>	<u>152,000</u>
Total primary government	<u>\$108,668,237</u>	<u>\$ 52,458,516</u>	<u>\$ 12,618,294</u>	<u>\$ 2,997,673</u>
COMPONENT UNITS				
Allentown Redevelopment Authority	\$ 641,351		\$ 860,656	
Allentown Economic Development Corporation	4,900,037	\$ 914,700	1,390,697	
Allentown Parking Authority	<u>3,571,426</u>	<u>4,791,417</u>	<u>52,327</u>	<u>-</u>
Total component units	<u>\$ 9,112,814</u>	<u>\$ 5,706,117</u>	<u>\$ 2,303,680</u>	<u>\$ -</u>
General Revenues:				
Property and other taxes				
Grants and charges not restricted to specific programs				
Unrestricted investment earnings				
Other Income				
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
\$ (7,168,348)		\$ (7,168,348)	
(31,693,524)		(31,693,524)	
(1,997,124)		(1,997,124)	
(6,861,754)		(6,861,754)	
(402,099)		(402,099)	
(1,163,719)		(1,163,719)	
3,083,150		3,083,150	
<u>(3,940,612)</u>		<u>(3,940,612)</u>	
(50,144,030)		(50,144,030)	
	\$ 3,717,953	3,717,953	
	5,201,655	5,201,655	
	99,921	99,921	
	<u>530,747</u>	<u>530,747</u>	
<u>(50,144,030)</u>	<u>9,550,276</u>	<u>(40,593,754)</u>	
			\$ 219,305
			(2,594,640)
			<u>1,272,318</u>
			<u>\$ (1,103,017)</u>
46,918,139		46,918,139	
6,065,052		6,065,052	
596,402	111,315	707,717	185,298
			28,779
<u>4,671,851</u>	<u>(4,671,851)</u>	<u>-</u>	<u>-</u>
<u>58,251,444</u>	<u>(4,560,536)</u>	<u>53,690,908</u>	<u>(888,940)</u>
8,107,414	4,989,740	13,097,154	(888,940)
<u>(9,731,126)</u>	<u>65,070,708</u>	<u>55,339,582</u>	<u>21,089,198</u>
<u>\$ (1,623,712)</u>	<u>\$70,060,448</u>	<u>\$68,436,736</u>	<u>\$20,200,258</u>

## CITY OF ALLENTOWN, PENNSYLVANIA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005

	General	Pennsylvania Motor
<b><u>ASSETS</u></b>		
Cash and cash equivalents	-	\$ 626,339
Receivables:		
Taxes	\$ 945,836	
Loans		
Accounts		
Grants	830,969	
Due from other funds	<u>823,840</u>	<u>-</u>
<b>TOTAL</b>	<b>\$ 2,600,645</b>	<b>\$ 626,339</b>
<b><u>LIABILITIES AND FUND (DEFICIT) BALANCES</u></b>		
<b>LIABILITIES</b>		
Accounts payable	1,016,572	
Accrued wages payable	1,104,889	28,658
Due to other funds	1,587,294	
Due to other governments	2,154	
Deferred revenues	1,155,606	
Other liabilities	<u>445,750</u>	<u>-</u>
Total liabilities	<u>5,312,265</u>	<u>28,658</u>
<b>FUND (DEFICIT) BALANCES:</b>		
Reserved for encumbrances		
Reserved for specific fund balances		597,681
Unreserved, undesignated	<u>(2,711,620)</u>	<u>-</u>
Total fund (deficit) balances	<u>(2,711,620)</u>	<u>597,681</u>
<b>TOTAL</b>	<b>\$ 2,600,645</b>	<b>\$ 626,339</b>

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	Trexler	Total Governmental Funds
\$ 1,267,587	\$ 1,781,860		\$ 3,675,786
			945,836
7,232,934			7,232,934
	40,353		40,353
1,423,162		\$ 596,094	2,850,225
-	3,946,750	-	4,770,590
<u>\$ 9,923,683</u>	<u>\$ 5,768,963</u>	<u>\$ 596,094</u>	<u>\$ 19,515,724</u>
975,751	655,003	530	2,647,856
1,258		31,059	1,165,864
504,173	1,721,661	247,848	4,060,976
97,775			99,929
			1,155,606
<u>344,043</u>	<u>32,032</u>		<u>821,825</u>
<u>1,923,000</u>	<u>2,408,696</u>	<u>279,437</u>	<u>9,952,056</u>
	3,360,267	4,818	3,365,085
8,000,683		311,839	8,910,203
			(2,711,620)
<u>8,000,683</u>	<u>3,360,267</u>	<u>316,657</u>	<u>9,563,668</u>
<u>\$ 9,923,683</u>	<u>\$ 5,768,963</u>	<u>\$ 596,094</u>	
			80,286,995
			527,139
			(1,057,381)
			862,741
			(2,430,337)
			877,225
			<u>(90,253,762)</u>
			<u>\$ (1,623,712)</u>

# CITY OF ALLENTOWN, PENNSYLVANIA

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2005

	General	Pennsylvania Motor	Community Development Block Grant
<b>REVENUES:</b>			
Taxes	\$ 45,635,035		
Licenses and permits	3,062,847		
Charges for services	4,647,138		
Fines and forfeits	555,898		
Investment earnings	443,353	\$ 19,660	\$ 33,348
Intergovernmental revenues	9,391,948	1,695,113	4,106,697
Other	1,604,402	-	322,714
<b>Total revenues</b>	<b>65,340,621</b>	<b>1,714,773</b>	<b>4,462,759</b>
<b>EXPENDITURES:</b>			
Current:			
General government	8,329,314		
Public safety	36,144,138		
Community development	4,166,744		3,993,058
Public works	7,344,618	1,607,901	
Health and sanitation	3,322,865		
Parks and recreation	1,048,241		
Debt service:			
Principal			400,000
Interest			
Capital outlay	876,836		
<b>Total expenditures</b>	<b>61,232,756</b>	<b>1,607,901</b>	<b>4,393,058</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>4,107,865</b>	<b>106,872</b>	<b>69,701</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	4,503,923		
Transfers out	(8,011,200)		
<b>Total other financing sources and uses</b>	<b>(3,507,277)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>600,588</b>	<b>106,872</b>	<b>69,701</b>
<b>FUND BALANCE (DEFICIT), BEGINNING</b>	<b>(3,312,208)</b>	<b>490,809</b>	<b>7,930,982</b>
<b>FUND BALANCE (DEFICIT), ENDING</b>	<b>\$ (2,711,620)</b>	<b>\$ 597,681</b>	<b>\$ 8,000,683</b>

See Notes to Financial Statements

Schedule consists of both facing pages

Debt Service	Capital Projects	Trexler	Total Governmental Funds
			\$ 45,635,035
	\$ 250,171		3,062,847
			4,897,309
			555,898
	-	\$ 1,426	497,787
	2,201,507	1,549,535	18,944,800
	147,071	17,537	2,091,724
-	2,598,749	1,568,498	75,685,400
\$ 20,798			8,350,112
			36,144,138
			8,159,802
			8,952,519
			3,322,865
		1,275,311	2,323,552
4,230,000			4,630,000
3,971,511			3,971,511
	5,888,621		6,765,457
8,222,309	5,888,621	1,275,311	82,619,956
(8,222,309)	(3,289,872)	293,187	(6,934,556)
8,222,309			12,726,232
			(8,011,200)
8,222,309	-	-	4,715,032
-	(3,289,872)	293,187	(2,219,524)
-	6,650,139	23,470	11,783,192
\$ -	\$ 3,360,267	\$ 316,657	\$ 9,563,668

**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, 2005**

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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)	\$ (2,219,524)
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 of capital assets recorded in the current period.	6,040,217
Depreciation expense on capital assets is reported in the statement of activities but they do not require the use of current financial resources; therefore depreciation expense is not reported as expenditures in governmental funds.	(4,563,972)
The net effect of various transactions involving capital assets (i.e. disposals and contributions) is to decrease net assets.	(77,123)
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.	108,923
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.	214,952
Activities of the internal service fund are reported as net expense in the statement of activities.	2,866,112
Change in net pension asset not reflected in the funds.	556,114
The repayment of principal of long term debt consumes the current financial resources of governmental funds.	5,020,779
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.	130,037
Accrued interest expense on long term debt is reported in the statement of activities but does not require the use of current financial resources; therefore accrued interest expense is not reported as expenditures in governmental funds.	<u>30,899</u>
Change in net assets of governmental activities (pages 24-25)	<u>\$ 8,107,414</u>

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See Notes to Financial Statements

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**CITY OF ALLENTOWN, PENNSYLVANIA**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Water Fund	Sewer Fund
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,362,034	\$ 3,702,560
Accounts receivable:		
Metered charges	3,867,665	2,376,053
Refuse collection		
Other	26,730	138,767
Signatories	367,230	1,807,546
Total accounts receivable	4,261,625	4,322,366
Allowance for doubtful accounts	836,509	549,068
Net accounts receivable	3,425,116	3,773,298
Due from other funds	-	3,688,222
Total current assets	5,787,150	11,164,080
<b>CAPITAL ASSETS:</b>		
Land	2,595,840	28,450
Buildings	11,470,094	29,312,419
Land and building improvements	14,667,326	4,825,057
Machinery and equipment	18,994,149	12,464,132
Vehicles	2,413,198	1,647,599
Distribution and collection systems	40,500,086	10,565,726
Construction in progress	241,958	209,737
Total capital assets	90,882,651	59,053,120
Accumulated depreciation	(27,556,765)	(28,915,048)
Net capital assets	63,325,886	30,138,072
Other assets	1,663,721	762,668
Total noncurrent assets	64,989,607	30,900,740
<b>TOTAL</b>	<b>\$ 70,776,757</b>	<b>\$ 42,064,820</b>

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>\$ 10,673</u>	<u>\$ 2,303,923</u>	<u>\$ 8,379,190</u>	<u>\$ 1,583,300</u>
		6,243,718	
	970,582	970,582	
		165,497	
<u>-</u>	<u>-</u>	<u>2,174,776</u>	<u>-</u>
-	970,582	9,554,573	
<u>-</u>	<u>513,077</u>	<u>1,898,654</u>	<u>-</u>
<u>-</u>	<u>457,505</u>	<u>7,655,919</u>	
<u>-</u>	<u>-</u>	<u>3,688,222</u>	<u>-</u>
<u>10,673</u>	<u>2,761,428</u>	<u>19,723,331</u>	<u>1,583,300</u>
1,134,758		3,759,048	
227,475	844,014	41,854,002	
2,813,529	1,438,630	23,744,542	
553,757	560,005	32,572,043	
229,476	2,747,877	7,038,150	
37,465		51,103,277	
<u>-</u>	<u>-</u>	<u>451,695</u>	
4,996,460	5,590,526	160,522,757	
<u>(1,845,737)</u>	<u>(2,827,121)</u>	<u>(61,144,671)</u>	<u>-</u>
<u>3,150,723</u>	<u>2,763,405</u>	<u>99,378,086</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>2,426,389</u>	<u>-</u>
<u>3,150,723</u>	<u>2,763,405</u>	<u>101,804,475</u>	<u>-</u>
<u>\$ 3,161,396</u>	<u>\$ 5,524,833</u>	<u>\$ 121,527,806</u>	<u>\$ 1,583,300</u>

(continued)

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2005**

	Water Fund	Sewer Fund
<u>LIABILITIES AND NET ASSETS (DEFICIT)</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 384,187	\$ 395,616
Accrued wages payable	96,233	126,138
Accrued interest payable	332,132	239,772
Due to other funds	2,359,656	
Capital leases payable	83,425	369,344
Claims liability	-	
Other liabilities	-	
Current portion of long term liabilities	<u>4,320,000</u>	<u>1,555,000</u>
Total current liabilities	<u>7,575,633</u>	<u>2,685,870</u>
<b>LONG-TERM LIABILITIES:</b>		
Capital lease payable	406,125	1,701,094
Bonds payable	23,410,000	14,000,000
Accrued vacation	<u>244,444</u>	<u>310,387</u>
Total long-term liabilities	<u>24,060,569</u>	<u>16,011,481</u>
Total liabilities	<u>31,636,202</u>	<u>18,697,351</u>
<b>NET ASSETS (DEFICIT):</b>		
Invested in capital assets, net of related debt	35,106,336	12,512,634
Unrestricted	<u>4,034,219</u>	<u>10,854,835</u>
Total net assets (deficit)	<u>39,140,555</u>	<u>23,367,469</u>
<b>TOTAL</b>	<u>\$ 70,776,757</u>	<u>\$ 42,064,820</u>

See Notes to Financial Statements

Schedule consists of both facing pages

Municipal Golf Course	Solid Waste Fund	Totals	Internal Service Fund
\$ 6,621	\$ 739,947	\$ 1,526,371	\$ 248,588
7,025	33,866	263,262	3,521
		571,904	
71,819		2,431,475	1,966,560
	64,265	517,034	
			1,794,160
	61,635	61,635	
-	-	5,875,000	-
<u>85,465</u>	<u>899,713</u>	<u>11,246,681</u>	<u>4,012,829</u>
	64,924	2,172,143	
		37,410,000	
<u>16,226</u>	<u>67,477</u>	<u>638,534</u>	<u>808</u>
<u>16,226</u>	<u>132,401</u>	<u>40,220,677</u>	<u>808</u>
<u>101,691</u>	<u>1,032,114</u>	<u>51,467,358</u>	<u>4,013,637</u>
3,150,723	2,634,216	53,403,909	
<u>(91,018)</u>	<u>1,858,503</u>	<u>16,656,539</u>	<u>(2,430,337)</u>
<u>3,059,705</u>	<u>4,492,719</u>	<u>70,060,448</u>	<u>(2,430,337)</u>
<u>\$ 3,161,396</u>	<u>\$ 5,524,833</u>	<u>\$ 121,527,806</u>	<u>\$ 1,583,300</u>

**CITY OF ALLENTOWN, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Water Fund	Sewer Fund	Municipal Golf Course
<b>OPERATING REVENUES:</b>			
Charges for services:			
Metered charges	\$12,268,578	\$ 7,564,192	
Refuse collections			
Recycling			
Other charges	2,007,041	9,372,663	\$ 937,103
Miscellaneous	104,381	115,326	13,313
	<u>14,380,000</u>	<u>17,052,181</u>	<u>950,416</u>
Total operating revenues			
<b>OPERATING EXPENSES:</b>			
Personnel services	4,956,274	6,306,167	366,335
Utility services	552,649	789,295	15,614
Contracted services	223,223	591,019	168,962
Materials and supplies	1,120,464	1,324,731	62,409
Claims and benefits			
Depreciation and amortization	2,299,617	2,087,443	234,987
Miscellaneous	230,604	98,631	3,275
	<u>9,382,831</u>	<u>11,197,286</u>	<u>851,582</u>
Total operating expenses			
<b>OPERATING INCOME (LOSS)</b>	<u>4,997,169</u>	<u>5,854,895</u>	<u>98,834</u>
<b>NONOPERATING (EXPENSE) REVENUE:</b>			
Investment income	32,402	904	2,236
Interest expense	(1,343,246)	(701,711)	
Grants	64,030	48,471	1,087
Miscellaneous	-	-	-
	<u>(1,246,814)</u>	<u>(652,336)</u>	<u>3,323</u>
Total nonoperating (expense) revenue			
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	3,750,355	5,202,559	102,157
<b>TRANSFERS</b>	<u>(1,662,936)</u>	<u>(2,371,436)</u>	<u>(188,545)</u>
<b>NET INCOME (LOSS)</b>	2,087,419	2,831,123	(86,388)
<b>NET ASSETS (DEFICIT), BEGINNING</b>	<u>37,053,136</u>	<u>20,536,346</u>	<u>3,146,093</u>
<b>NET ASSETS (DEFICIT), ENDING</b>	<u>\$39,140,555</u>	<u>\$23,367,469</u>	<u>\$3,059,705</u>

See Notes to Financial Statements

Schedule consists of both facing pages

Solid Waste Fund	Totals	Internal Service Fund
	\$ 19,832,770	
\$ 8,403,324	8,403,324	
448,388	448,388	
	12,316,807	\$14,606,782
32,728	265,748	28,161
<u>8,884,440</u>	<u>41,267,037</u>	<u>14,634,943</u>
1,747,877	13,376,653	
17,419	1,374,977	
6,975,742	7,958,946	
90,365	2,597,969	
		11,750,935
435,419	5,057,466	
151,033	483,543	-
<u>9,417,855</u>	<u>30,849,554</u>	<u>11,750,935</u>
<u>(533,415)</u>	<u>10,417,483</u>	<u>2,884,008</u>
75,773	111,315	24,561
	(2,044,957)	
1,064,162	1,177,750	724
-	-	-
<u>1,139,935</u>	<u>(755,892)</u>	<u>25,285</u>
606,520	9,661,591	2,909,293
<u>(448,934)</u>	<u>(4,671,851)</u>	<u>(43,181)</u>
157,586	4,989,740	2,866,112
<u>4,335,133</u>	<u>65,070,708</u>	<u>(5,296,449)</u>
<u>\$ 4,492,719</u>	<u>\$ 70,060,448</u>	<u>\$ (2,430,337)</u>

**CITY OF ALLENTOWN, PENNSYLVANIA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Water Fund	Sewer Fund	Municipal Golf Course
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 14,568,724	\$ 16,708,351	\$ 950,416
Payments to suppliers for services	(1,981,037)	(2,810,803)	(378,853)
Payments to employees	(4,936,995)	(6,288,270)	(360,606)
Other income	-	-	-
Net cash provided by (used in) operating activities	<u>7,650,692</u>	<u>7,609,278</u>	<u>210,957</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating grants received	64,030	48,471	1,087
Transfers	<u>(1,662,936)</u>	<u>(2,371,436)</u>	<u>(188,545)</u>
Net cash used in noncapital financing activities	<u>(1,598,906)</u>	<u>(2,322,965)</u>	<u>(187,458)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Capital grants received			
Acquisition and construction of capital assets	(1,179,507)	(1,448,105)	(46,841)
Advance from/to other funds	1,056,670	1,828,723	(93,728)
Principal paid on capital debt	(4,439,765)	(1,875,000)	
Payments of obligations under capital leases	(79,903)	(353,600)	
Interest paid on long term obligations	<u>(1,376,868)</u>	<u>(726,276)</u>	<u>-</u>
Net cash (used in) provided by capital and related financing activities	<u>(6,019,373)</u>	<u>(2,574,258)</u>	<u>(140,569)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES,</b>			
Interest received	<u>32,402</u>	<u>904</u>	<u>2,236</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>64,815</u>	<u>2,712,959</u>	<u>(114,834)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>2,297,219</u>	<u>989,601</u>	<u>125,507</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 2,362,034</u>	<u>\$ 3,702,560</u>	<u>\$ 10,673</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 4,997,169	\$ 5,854,895	\$ 98,834
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,299,617	2,087,443	234,986
Accounts receivable	188,724	(343,830)	
Vouchers and accounts payable	145,903	(7,127)	(128,592)
Accrued payroll	19,279	17,897	5,729
Other liabilities	-	-	-
Total adjustments	<u>2,653,523</u>	<u>1,754,383</u>	<u>112,123</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>\$ 7,650,692</u>	<u>\$ 7,609,278</u>	<u>\$ 210,957</u>

See Notes to Financial Statements

Schedule consists of both facing pages

Solid Waste Fund	Totals	Internal Service Fund
\$ 8,947,331	\$ 41,174,822	\$ 14,634,943
(7,662,487)	(12,833,180)	(13,345,994)
(1,724,156)	(13,310,027)	365
<u>-</u>	<u>-</u>	<u>-</u>
(439,312)	15,031,615	1,289,314
<u>912,162</u>	<u>1,025,750</u>	<u>724</u>
(448,934)	(4,671,851)	(43,181)
<u>463,228</u>	<u>(3,646,101)</u>	<u>(42,457)</u>
152,000	152,000	
(329,191)	(3,003,644)	
	2,791,665	(1,779,178)
	(6,314,765)	
(175,984)	(609,487)	
<u>-</u>	<u>(2,103,144)</u>	<u>-</u>
(353,175)	(9,087,375)	(1,779,178)
<u>75,773</u>	<u>111,315</u>	<u>24,561</u>
(253,486)	2,409,454	(507,760)
<u>2,557,409</u>	<u>5,969,736</u>	<u>2,091,060</u>
\$ 2,303,923	\$ 8,379,190	\$ 1,583,300
<u>\$ (533,415)</u>	<u>\$ 10,417,483</u>	<u>\$ 2,884,008</u>
435,418	5,057,464	
62,891	(92,215)	
(421,188)	(411,004)	(810,123)
23,721	66,626	365
(6,739)	(6,739)	(784,936)
<u>94,103</u>	<u>4,614,132</u>	<u>(1,594,694)</u>
\$ (439,312)	\$ 15,031,615	\$ 1,289,314

**CITY OF ALLENTOWN, PENNSYLVANIA****STATEMENT OF FIDUCIARY NET ASSETS  
DECEMBER 31, 2005**

	Pension Trust Funds	Agency Funds
<u>ASSETS</u>		
CASH AND CASH EQUIVALENTS	\$ 17,000	\$ 8,928,712
INTEREST RECEIVABLE	231,014	
INVESTMENTS, At fair value		
U.S. Government obligations	8,979,803	
Corporate bonds	7,740,710	
Equity investments	78,192,125	
Collateralized mortgages	3,381,381	
Other fixed income	28,361,659	
Asset backed securities	3,592,094	
DUE FROM OTHER FUNDS	<u>200</u>	<u>-</u>
TOTAL	<u>\$ 130,495,986</u>	<u>\$ 8,928,712</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable	\$ 2,310,335	
Payroll tax liabilities		\$ 1,004,941
Due to other governments	<u>1,517,758</u>	<u>7,923,771</u>
Total liabilities	<u>3,828,093</u>	<u>8,928,712</u>
NET ASSETS:		
Held in trust for pension benefits and other purposes	<u>126,667,893</u>	<u>-</u>
TOTAL	<u>\$ 130,495,986</u>	<u>\$ 8,928,712</u>

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See Notes to Financial Statements

**CITY OF ALLENTOWN, PENNSYLVANIA****STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Pension Trust Funds
<hr/>	
ADDITIONS:	
Contributions:	
Employer	\$ 3,831,005
Plan members	<u>1,238,167</u>
Total contributions	<u>5,069,172</u>
Investment income:	
Net appreciation (depreciation) in fair value of investments	(576,346)
Interest and dividends	5,987,159
Less investment expenses	<u>(224,490)</u>
Net investment income	<u>5,186,323</u>
Other income:	
Miscellaneous	<u>32,725</u>
Total other income	<u>32,725</u>
Total additions	<u>10,288,220</u>
DEDUCTIONS:	
Benefits paid to recipients	12,431,398
Administrative and other fees	<u>158,664</u>
Total deductions	<u>12,590,062</u>
CHANGE IN NET ASSETS	(2,301,842)
NET ASSETS, BEGINNING	<u>128,969,735</u>
NET ASSETS, ENDING	<u>\$ 126,667,893</u>

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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.

#### 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 FUND - 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.

TREXLER FUND - The Trexler Fund is used for maintenance, development and extension of the City's park system. The Trexler Fund is a special revenue fund and the use of funds is specified by the grantor.

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.

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.

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.

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 and Agency Fund.

PENSION TRUST FUND - is used to account for pension benefits for employees. The principal revenue sources for this fund are 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, policemen and firemen.

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.

#### **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.

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 United States 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 United States 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 of 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.

#### **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 \$1,144,000 at December 31, 2005.

#### **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, 2005 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 consist of bridges, traffic lights and signals, streets and streetlights, 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.

Collections of art, historical artifacts and similar items have been 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 Portnoff Law Associates for further collection and possible tax sales over an additional 30-month period.

The 2005 tax levy was 61.123 mills.

### **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, 2005, 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, automobile and general liability claim losses. At December 31, 2005, the City carried excess loss insurance policies which limited its liability to \$450,000 per occurrence for workers' compensation, \$100,000 per occurrence for property and flood loss, and \$10,000 per occurrence for employee theft. 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 \$1,794,160 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*, as amended by GASB Statement No. 39, 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 AEDC.

### **ALLENTOWN PARKING AUTHORITY**

The 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  
STATEMENTS OF NET ASSETS  
DECEMBER 31, 2005

	ALLENTOWN REDEVELOPMENT AUTHORITY	ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION*	ALLENTOWN PARKING AUTHORITY	TOTAL
<b>ASSETS</b>				
Cash and cash equivalents	\$ 203,881	\$ 2,924,397	\$ 2,183,966	\$ 5,312,244
Cash and cash equivalents, restricted	-	-	12,005,550	12,005,550
Accounts receivable, net	87,521	439,541	143,934	670,996
Due from other governments	21,412	-	-	21,412
Other assets	-	1,680,616	587,416	2,268,032
Property held for development	367,257	-	-	367,257
Capital assets, net	<u>-</u>	<u>12,606,551</u>	<u>13,691,003</u>	<u>26,297,554</u>
Total assets	<u>\$ 680,071</u>	<u>\$ 17,651,105</u>	<u>\$ 28,611,869</u>	<u>\$ 46,943,045</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 10,254	\$ 270,308	\$ 51,035	\$ 331,597
Accounts payable, payable from restricted funds	-	-	370,053	370,053
Long-term debt	-	4,012,424	21,028,578	25,041,002
Other liabilities	<u>17,345</u>	<u>334,737</u>	<u>648,053</u>	<u>1,000,135</u>
Total liabilities	<u>27,599</u>	<u>4,617,469</u>	<u>22,097,719</u>	<u>26,742,787</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	-	8,480,122	3,949,990	12,430,112
Unrestricted	<u>652,472</u>	<u>4,553,514</u>	<u>2,564,160</u>	<u>7,770,146</u>
Total net assets	<u>652,472</u>	<u>13,033,636</u>	<u>6,514,150</u>	<u>20,200,258</u>
Total liabilities and net assets	<u>\$ 680,071</u>	<u>\$ 17,651,105</u>	<u>\$ 28,611,869</u>	<u>\$ 46,943,045</u>

\* Presented as of June 30, 2005.

CONDENSED FINANCIAL STATEMENTS  
DISCRETELY PRESENTED COMPONENT UNITS  
STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	ALLENTOWN REDEVELOPMENT <u>AUTHORITY</u>	ALLENTOWN ECONOMIC DEVELOPMENT <u>CORPORATION</u>	ALLENTOWN PARKING <u>AUTHORITY</u>	<u>TOTAL</u>
Program revenues:				
Charges for services	\$ -	\$ 914,700	\$ 4,791,417	\$ 5,706,117
Grants	860,656	1,390,697	52,327	2,303,680
General revenues:				
Investment income	5,291	69,757	110,250	185,298
Other income	<u>4,392</u>	<u>-</u>	<u>24,387</u>	<u>28,779</u>
Total revenues	<u>870,339</u>	<u>2,375,154</u>	<u>4,978,381</u>	<u>8,223,874</u>
Expenses:				
Operating and other expenses	641,351	1,287,788	2,465,370	4,394,509
Depreciation and amortization	-	256,356	696,668	953,024
Interest expense	-	475,822	409,388	885,210
Loss on disposal of assets	<u>-</u>	<u>2,880,071</u>	<u>-</u>	<u>2,880,071</u>
Total expenses	<u>641,351</u>	<u>4,900,037</u>	<u>3,571,426</u>	<u>9,112,814</u>
Net income (loss)	228,988	(2,524,883)	1,406,955	(888,940)
Net assets, beginning of year	<u>423,484</u>	<u>15,558,519</u>	<u>5,107,195</u>	<u>21,089,198</u>
Net assets, end of year	<u>\$ 652,472</u>	<u>\$ 13,033,636</u>	<u>\$ 6,514,150</u>	<u>\$ 20,200,258</u>

### 3. DEPOSITS AND INVESTMENTS

The carrying amounts of cash and investments at December 31, 2005 consist of the following:

Cash and cash equivalents:	
Governmental	\$ 5,259,086
Business-type	8,379,190
Fiduciary	<u>8,945,712</u>
	22,583,988
Investments, fiduciary	<u>130,247,772</u>
	<u>\$152,831,760</u>
Cash and cash equivalents	\$ 11,750,151
Investments	<u>141,081,609</u>
	<u>\$152,831,760</u>

#### CASH

The City's available cash is invested in demand deposit accounts, money market funds and cash held in investment accounts.

The City has custodial credit risk on cash deposits. This is the risk that in the event of a financial institution failure, the City's deposits may not be returned. The City has a deposit policy for custodial risk that requires depository institutions to pledge securities as collateral for deposits that exceed depository insurance.

At December 31, 2005, the carrying amounts of the City's bank deposits were \$11,750,151 and the bank balances were \$11,808,369, of which \$11,508,369 was exposed to custodial risk because it was not covered by Federal Depository Insurance.

#### INVESTMENTS

As of December 31, 2005, the City's investments were comprised of the following:

Mutual funds	\$100,430,069
Fixed income	<u>40,651,540</u>
Total	<u>\$141,081,609</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

As of December 31, 2005, the City had the following fixed income investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
United States Treasury Notes	\$14,100,843	\$ 4,078,380	\$ 7,574,185	\$ 2,448,278	\$ -
United States Government agency securities	4,559,039	993,440	1,545,553	2,020,046	-
Collateralized mortgage obligations	3,381,381	-	1,155,267	-	2,226,114
Asset backed securities	2,219,401	-	-	1,073,432	1,145,969
Mortgage backed pass-through	1,966,916	-	152,686	318,269	1,495,961
Corporate bonds	13,916,197	376,054	5,799,550	7,523,621	216,972
Other fixed income	<u>507,763</u>	<u>-</u>	<u>507,763</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$40,651,540</u>	<u>\$ 5,447,874</u>	<u>\$16,735,004</u>	<u>\$13,383,646</u>	<u>\$ 5,085,016</u>

**INTEREST RATE RISK**

The City does not have a formal investment policy for its funds that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The City's pension plans have a formal investment policy that has set a 10-year investment horizon and targets fixed income investments to be no more than 40% of the investment portfolio.

### **CREDIT RISK**

The City's investments are limited to those permitted in the Pennsylvania Third Class City Code and the Home Rule Charter as detailed in Note 1.

The City's pension plans have a formal investment policy that seeks to minimize the risk of investment losses by requiring diversification of the investment portfolio targeted at 44% domestic equities, 10% international equities, 6% real estate and 40% fixed income. At December 31, 2005, the City's pension plan investments were rated AAA by Standard and Poor's and Aaa by Moody's Investor Services.

### **CUSTODIAL CREDIT RISK**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2005, \$139,193,484 of the City's pension plan investments are held by the investment's counterparty, not in the name of the City's pension plans.

### **COMPONENT UNITS' CUSTODIAL CREDIT RISK - DEPOSITS**

The City's component units have custodial credit risk on cash deposits. Custodial credit risk is the risk that in the event of a bank failure, the deposits of the City's component units will not be returned to them. The carrying amounts of the City's component units bank deposits were \$17,317,794 and the bank balances were \$17,432,155, of which \$15,706,445 was exposed to custodial risk because it was not covered by Federal Depository Insurance.

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

#### 4. CAPITAL ASSETS

Activity in the capital assets for the year ended December 31, 2005 is as follows:

	January 1, <u>2005</u>	<u>Additions</u>	<u>Disposals</u>	December 31, <u>2005</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 8,409,945	\$ -	\$ -	\$ 8,409,945
Property held for development	744,951	-	35,000	709,951
Art	95,166	-	-	95,166
Construction in progress	<u>4,135,640</u>	<u>4,978,868</u>	<u>2,384,418</u>	<u>6,730,090</u>
Total capital assets not being depreciated	<u>13,385,702</u>	<u>4,978,868</u>	<u>2,419,418</u>	<u>15,945,152</u>
Capital assets being depreciated:				
Buildings	22,912,976	15,888	73,057	22,855,807
Land and building improvements	16,181,606	2,439,545	1,076,042	17,545,109
Machinery and equipment	16,090,730	438,369	2,075,624	14,453,475
Vehicles	13,540,088	551,968	321,633	13,770,423
Infrastructure	<u>62,439,025</u>	<u>675,658</u>	<u>44,668</u>	<u>63,070,015</u>
Total capital assets being depreciated	<u>131,164,425</u>	<u>4,121,428</u>	<u>3,591,024</u>	<u>131,694,829</u>
Less accumulated depreciation for:				
Buildings	13,410,684	601,428	73,057	13,939,055
Land and building improvements	8,060,263	654,072	400,382	8,313,953
Machinery and equipment	10,955,605	791,977	2,067,332	9,680,250
Vehicles	10,255,109	1,271,039	294,786	11,231,362
Infrastructure	<u>22,980,593</u>	<u>1,245,456</u>	<u>37,683</u>	<u>24,188,366</u>
Total accumulated depreciation	<u>65,662,254</u>	<u>4,563,972</u>	<u>2,873,240</u>	<u>67,352,986</u>
Total capital assets being depreciated, net	<u>65,502,171</u>	<u>(442,544)</u>	<u>717,784</u>	<u>64,341,843</u>
Governmental activities capital assets, net	<u>\$ 78,887,873</u>	<u>\$ 4,536,324</u>	<u>\$ 3,137,202</u>	<u>\$ 80,286,995</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

	January 1, <u>2005</u>	<u>Additions</u>	<u>Disposals</u>	December 31, <u>2005</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,759,048	\$ -	\$ -	\$ 3,759,048
Construction in progress	<u>2,344,897</u>	<u>2,231,822</u>	<u>4,125,024</u>	<u>451,695</u>
Total capital assets not being depreciated	<u>6,103,945</u>	<u>2,231,822</u>	<u>4,125,024</u>	<u>4,210,743</u>
Capital assets being depreciated:				
Buildings	41,729,234	225,958	101,190	41,854,002
Land and building improvements	21,191,761	2,613,977	61,197	23,744,541
Machinery and equipment	34,373,650	185,546	1,987,153	32,572,043
Vehicles	6,643,108	619,832	224,790	7,038,150
Distribution and collection systems	<u>49,875,111</u>	<u>1,270,519</u>	<u>42,353</u>	<u>51,103,277</u>
Total capital assets being depreciated	<u>153,812,864</u>	<u>4,915,832</u>	<u>2,416,683</u>	<u>156,312,013</u>
Less accumulated depreciation for:				
Buildings	18,082,431	1,156,113	101,190	19,137,354
Land and building improvements	5,364,858	739,970	61,197	6,043,631
Machinery and equipment	18,843,048	1,646,796	1,974,964	18,514,880
Vehicles	4,901,305	732,758	235,435	5,398,628
Distribution and collection systems	<u>11,573,244</u>	<u>519,286</u>	<u>42,353</u>	<u>12,050,177</u>
Total accumulated depreciation	<u>58,764,886</u>	<u>4,794,923</u>	<u>2,415,139</u>	<u>61,144,670</u>
Total capital assets being depreciated, net	<u>95,047,978</u>	<u>120,909</u>	<u>1,544</u>	<u>95,167,343</u>
Business-type activity capital assets, net	<u>\$101,151,923</u>	<u>\$ 2,352,731</u>	<u>\$ 4,126,568</u>	<u>\$ 99,378,086</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

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Depreciation expense was charged to governmental activities as follows:

General government	\$ 358,759
Public safety	1,186,324
Public works	2,137,808
Health	52,290
Parks and recreation	747,799
Community development and planning	<u>80,992</u>
Total	<u>\$ 4,563,972</u>

## 5. INTERFUND RECEIVABLE AND PAYABLE BALANCES

The composition of interfund balances as of December 31, 2005 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental activities:		
General Fund	\$ 823,840	\$ 1,587,294
Trexler Fund	-	247,848
Community Development Block Grant Fund	-	504,174
Capital Projects Fund	<u>3,946,750</u>	<u>1,721,661</u>
Total	<u>4,770,590</u>	<u>4,060,977</u>
Business-type activities:		
Water Fund	-	2,359,656
Sewer Fund	3,688,222	-
Municipal Golf Course Fund	<u>-</u>	<u>71,819</u>
Total	<u>3,688,222</u>	<u>2,431,475</u>
Internal Service Fund	<u>-</u>	<u>1,966,560</u>
Fiduciary Fund Type, O & E Pension	<u>200</u>	<u>-</u>
Total	<u>\$ 8,459,012</u>	<u>\$ 8,459,012</u>

Interfund balances represent short-term borrowing between funds for the purpose of eliminating negative cash.

## 6. INDIVIDUAL FUND INTERFUND TRANSFERS

The composition of interfund transfers as of December 31, 2005 is as follows:

	Transfers <u>In</u>	Transfers <u>Out</u>
Governmental activities:		
General Fund	\$ 4,503,923	\$ 8,011,200
Debt Service Fund	8,222,309	-
Business-type activities:		
Water Fund	-	1,662,936
Sewer Fund	-	2,371,436
Solid Waste Fund	-	448,934
Municipal Golf Course Fund	-	188,545
Internal Service Fund	<u>-</u>	<u>43,181</u>
Total	<u>\$12,726,232</u>	<u>\$12,726,232</u>

Transfers out were made from the General Fund to the Debt Service Fund of \$8,011,200 for debt payments.

Transfers to the Debt Service Fund were also made from the following: Water Fund \$17,257, Sewer Fund \$34,514, Solid Waste Fund \$17,257 and Municipal Golf Course Fund \$142,081 for debt payments.

Transfers in totaling \$3,306,423 were made to the General Fund for reimbursement of services rendered by the General Fund for other operating funds (i.e., Water, Sewer, Internal Service Fund and Municipal Golf Course Funds).

## 7. PENSION PLANS

### PLAN DESCRIPTIONS

The City has three single employer defined benefit pension plans covering Policemen, Firemen and certain nonuniformed 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 Policemen, 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 nonuniformed 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 the 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:

	Officers and Employees' Pension Fund	Policemen's Pension Fund	Firemen's Pension Fund	Total Pension Trust Funds
<b><u>ASSETS</u></b>				
INTEREST RECEIVABLE	\$ 53,210	\$ 109,669	\$ 68,135	\$ 231,014
CASH AND INVESTMENTS, at fair value	<u>26,882,655</u>	<u>62,171,727</u>	<u>41,210,590</u>	<u>130,264,972</u>
TOTAL	<u>\$ 26,935,865</u>	<u>\$ 62,281,396</u>	<u>\$ 41,278,725</u>	<u>\$ 130,495,986</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>				
LIABILITIES:				
Accounts payable	\$ 1,854,779	\$ 297,146	\$ 158,410	\$ 2,310,335
Due to other governments	<u>1,517,758</u>	<u>-</u>	<u>-</u>	<u>1,517,758</u>
Total liabilities	3,372,537	297,146	158,410	3,828,093
NET ASSETS, reserved for pension benefits	<u>23,563,328</u>	<u>61,984,250</u>	<u>41,120,315</u>	<u>126,667,893</u>
TOTAL	<u>\$ 26,935,865</u>	<u>\$ 62,281,396</u>	<u>\$ 41,278,725</u>	<u>\$ 130,495,986</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

	Officers and Employees' Pension Fund	Policemen's Pension Fund	Firemen's Pension Fund	Total Pension Trust Funds
ADDITIONS:				
Contributions:				
Employer	\$ -	\$ 2,812,373	\$ 1,018,632	\$ 3,831,005
Plan members	<u>24,492</u>	<u>787,445</u>	<u>426,230</u>	<u>1,238,167</u>
Total contributions	<u>24,492</u>	<u>3,599,818</u>	<u>1,444,862</u>	<u>5,069,172</u>
Investment earnings:				
Net appreciation in fair value of investments	(123,653)	(260,186)	(192,507)	(576,346)
Interest and dividends	1,243,057	2,828,175	1,915,927	5,987,159
Less investment expenses	<u>(58,203)</u>	<u>(94,162)</u>	<u>(72,125)</u>	<u>(224,490)</u>
Net investment earnings	<u>1,061,201</u>	<u>2,473,827</u>	<u>1,651,295</u>	<u>5,186,323</u>
Other income, miscellaneous	<u>8,283</u>	<u>15,059</u>	<u>9,383</u>	<u>32,725</u>
Total additions	<u>1,093,976</u>	<u>6,088,704</u>	<u>3,105,540</u>	<u>10,288,220</u>
DEDUCTIONS:				
Benefits paid to recipients	3,239,728	5,598,418	3,593,252	12,431,398
Administrative and other fees	<u>155,198</u>	<u>2,744</u>	<u>722</u>	<u>158,664</u>
Total deductions	<u>3,394,926</u>	<u>5,601,162</u>	<u>3,593,974</u>	<u>12,590,062</u>
CHANGE IN NET ASSETS	(2,300,950)	487,542	(488,434)	(2,301,842)
NET ASSETS, BEGINNING	<u>25,864,278</u>	<u>61,496,708</u>	<u>41,608,749</u>	<u>128,969,735</u>
NET ASSETS, ENDING	<u>\$ 23,563,328</u>	<u>\$ 61,984,250</u>	<u>\$ 41,120,315</u>	<u>\$126,667,893</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 <u>Force</u>	All full-time members of the Fire <u>Department</u>	Closed <u>6/8/76</u>	All full-time employees not previously <u>covered</u>
Number of active plan members	164	135	10	554
Number of retirees and beneficiaries receiving benefits	249	166	262	134
Terminated employees entitled to deferred benefits	-	-	-	21

#### 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 2005. 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% 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 5% 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 7.5% 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)	\$ 2,453,196	\$ 815,563	\$ -
Interest on net pension asset	(14,301)	(7,559)	(2,670)
Adjustment to annual required contribution	<u>17,877</u>	<u>9,449</u>	<u>3,336</u>
Annual pension cost	2,456,772	817,453	666
Contributions made	<u>2,812,373</u>	<u>1,018,632</u>	<u>-</u>
(Increase) decrease in net pension asset	(355,601)	(201,179)	666
Net pension asset, beginning of year	<u>(178,767)</u>	<u>(94,490)</u>	<u>(33,370)</u>
Net pension asset, end of year	<u>\$ (534,368)</u>	<u>\$ (295,669)</u>	<u>\$ (32,704)</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

----- 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	12/31/03	\$ 1,247,972	99.7%	\$ 182,416
	12/31/04	2,580,070	99.9%	178,767
	12/31/05	2,456,772	114.5%	534,368
Firemen	12/31/03	421,655	99.4%	115,489
	12/31/04	954,502	97.8%	94,490
	12/31/05	817,453	124.6%	295,669
Officers and Employees	12/31/03	695	100%	34,051
	12/31/04	681	100%	33,370
	12/31/05	666	100%	32,704
Pennsylvania Municipal	12/31/03	329,361	100%	-
Retirement	12/31/04	345,520	100%	-
Plan	12/31/05	358,968	100%	-

The annual required contribution for each of the Plans for the current year was determined as part of the January 1, 2005 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% for the State (PMRS) Plan (b) projected salary increases of 5% per year for City Plans and 4.7% 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, 2005.

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

At December 31, 2005, none of the Plans had investments in any one organization which represented five percent or more of the Plan net assets.

**UNFUNDED ACTUARIAL LIABILITY**

The City's unfunded actuarial accrued liability is being amortized as a level dollar of projected payroll and the period is calculated every valuation. The remaining amortization period is 15 years for the Officers and Employees Plan, 18.08 years for the Policemen Plan and 20.05 years for the Firemen Plan.

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

## 8. LONG-TERM DEBT

The City issues notes payable and general obligation bonds to finance the capital projects of the City. At December 31, 2005, general long-term debt obligations of the City's governmental activities were as follows:

<u>General Obligation Notes and Bonds</u>	<u>Balance Outstanding January 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding December 31, 2005</u>	<u>Current Portion</u>
Notes payable, HUD 108 Series 1997-A term notes, 4.50%-6.70% interest payable in increasing annual installments of \$400,000 in 2005 to \$500,000 in 2007	\$ 1,400,000	\$ -	\$ 400,000	\$ 1,000,000	\$ 500,000
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	1,525,000	-	-	1,525,000	-
1995 General Obligation Refunding Bonds, 4.85% to 5.50% interest, serial portion payable in varying annual installments of \$190,000 in 2007 to \$280,000 in 2014	1,850,000	-	-	1,850,000	-
1997 General Obligation Bonds, 4.45% to 5.00% interest, payable in increasing annual installments of \$315,000 in 2009 to \$365,000 in 2012	1,360,000	-	-	1,360,000	-
1997 General Obligation Refunding Bonds, 4.55% interest, due in 2005	1,550,000	-	1,550,000	-	-
1998 General Obligation Bonds, 4.00% to 5.00% interest, payable in varying annual installments of \$420,000 in 2009 to \$290,000 in 2021	5,050,000	-	-	5,050,000	-
2001 General Obligation Bond, 2.80% to 5.00% interest, serial portion payable in varying annual installments of \$355,000 in 2009 to \$290,000 in 2021	4,360,000	-	-	4,360,000	-

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

General Obligation Notes and Bonds	Balance Outstanding January 1, 2005	Additions	Reductions	Balance Outstanding December 31, 2005	Current Portion
2003 General Obligation Bond, 2.00% to 5.50% interest, serial portion payable in increasing annual installments of \$535,000 in 2009 to \$725,000 in 2022	\$ 10,020,000	\$ -	\$ -	\$ 10,020,000	\$ -
2004 General Obligation Pension Bond, 1.31% to 5.25% interest, serial portion payable in increasing annual installments of \$650,000 in 2005 to \$2,260,000 in 2034	35,985,000	-	650,000	35,335,000	660,000
2004 Taxable General Obligation Bond, 1.31% to 4.44% interest, serial portion payable in increasing annual installments of \$1,800,000 in 2005 to \$2,405,000 in 2014	20,510,000	-	1,800,000	18,710,000	1,830,000
2004 Tax-Exempt General Obligation Bond, 1.00% to 5.00% interest, serial portion payable in increasing annual installments of \$230,000 in 2005 to \$490,000 in 2024	<u>6,795,000</u>	<u>-</u>	<u>230,000</u>	<u>6,565,000</u>	<u>235,000</u>
	<u>89,330,000</u>	<u>-</u>	<u>4,230,000</u>	<u>85,100,000</u>	<u>2,725,000</u>
Total Notes and General Obligation Bonds	90,730,000	-	4,630,000	86,100,000	3,225,000
Premium on bond issuance	<u>1,492,922</u>	<u>-</u>	<u>79,237</u>	<u>1,413,685</u>	<u>-</u>
Total	<u>\$ 92,222,922</u>	<u>\$ -</u>	<u>\$ 4,709,237</u>	<u>\$ 87,513,685</u>	<u>\$ 3,225,000</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

At December 31, 2005, the business-type activities' long-term debt consisted of the following:

<u>Revenue Notes and Bonds</u>	<u>Balance Outstanding January 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding December 31, 2005</u>	<u>Current Portion</u>
Notes payable, 1989 Guaranteed Water Revenue Note, 4.93% interest, \$129,764 due in 2005	\$ 129,764	\$ -	\$ 129,764	\$ -	\$ -
Bonds payable:					
1993 Guaranteed Water Revenue Bonds, 5.65% interest, one installment of \$775,000 due in 2010	775,000	-	-	775,000	-
1993 Guaranteed Water Revenue Refunding Bonds, 5.65% interest, one installment of \$330,000 due in 2010	330,000	-	-	330,000	-
1993 Guaranteed Sewer Revenue Bonds, 5.65% interest, one installment of \$645,000 due in 2010	645,000	-	-	645,000	-
1995 Guaranteed Water Revenue Refunding Bonds, 4.75% to 5.50% interest, serial portion payable in varying annual installments of \$480,000 in 2005 to \$425,000 in 2014	3,840,000	-	480,000	3,360,000	510,000
1997 Guaranteed Water Revenue Bonds, Second Series, 4.55% to 5.00% interest, serial portion payable in varying annual installments of \$210,000 in 2005 to \$200,000 in 2012	2,765,000	-	210,000	2,555,000	1,505,000
1997 Guaranteed Water Revenue Refunding Bonds, 4.55% interest, \$1,365,000 due in 2005	1,365,000	-	1,365,000	-	-
1997 Guaranteed Sewer Revenue Refunding Bonds, 4.55% interest, \$375,000 due in 2005	375,000	-	375,000	-	-
1997 Guaranteed Sewer Revenue Refunding Bonds, Second Series, 4.45% to 5.00% interest, serial portion payable in increasing annual installments of \$60,000 in 2005 to \$80,000 in 2012	530,000	-	60,000	470,000	55,000

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Revenue Notes and Bonds	Balance Outstanding January 1, 2005	Additions	Reductions	Balance Outstanding December 31, 2005	Current Portion
1998 Guaranteed Water Revenue Bonds, 4.00% to 5.00% interest, serial portion payable in varying annual installments of \$455,000 in 2005 to \$30,000 in 2018	\$ 4,720,000	\$ -	\$ 455,000	\$ 4,265,000	\$ 470,000
1998 Guaranteed Sewer Revenue Bonds, 4.00% to 5.00% interest, serial portion payable in varying annual installments of \$1,010,000 in 2005 to \$485,000 in 2018	8,310,000	-	1,010,000	7,300,000	1,045,000
1999 Guaranteed Sewer Revenue Bonds, 4.50% interest, \$95,000 due in 2005	95,000	-	95,000	-	-
2001 Guaranteed Water Revenue Bonds, 2.80% to 5.00% interest, serial portion payable in varying annual installments of \$1,270,000 in 2005 to \$110,000 in 2021	13,160,000	-	1,270,000	11,890,000	1,310,000
2001 Guaranteed Sewer Revenue Bonds, 2.80% to 5.00% interest, serial portion payable in increasing annual installments of \$70,000 in 2005 to \$135,000 in 2021	1,645,000	-	70,000	1,575,000	70,000
2003 Guaranteed Water Revenue Refunding Bonds, 2.00% to 4.375% interest, serial portion payable in varying annual installments of \$350,000 in 2005 to \$110,000 in 2019	2,140,000	-	350,000	1,790,000	350,000
2003 Guaranteed Sewer Revenue Refunding Bonds, 2.00% to 4.40% interest, serial portion payable in increasing annual installments of \$240,000 in 2005 to \$255,000 in 2020	5,445,000	-	240,000	5,205,000	360,000
2004 Guaranteed Water Revenue Bonds, 1.00% to 4.40% interest, serial portion payable in varying annual installments of \$180,000 in 2005 to \$95,000 in 2024	2,945,000	-	180,000	2,765,000	175,000
2004 Guaranteed Sewer Revenue Bonds, 1.00% to 4.00% interest, serial portion payable in increasing annual installments of \$25,000 in 2005 to \$35,000 in 2018	<u>385,000</u>	<u>-</u>	<u>25,000</u>	<u>360,000</u>	<u>25,000</u>
Total	<u>\$ 49,599,764</u>	<u>\$ -</u>	<u>\$ 6,314,764</u>	<u>\$ 43,285,000</u>	<u>\$ 5,875,000</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

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Debt service requirements to maturity, including interest of \$62,847,698, are as follows:

<u>Year Ending</u>	<u>Business- Type Activities</u>	<u>Governmental Activities</u>	<u>Total</u>
2006	\$ 7,779,865	\$ 7,180,609	\$ 14,960,474
2007	5,611,473	7,338,381	12,949,854
2008	5,273,473	7,161,962	12,435,435
2009	4,762,184	9,336,988	14,099,172
2010	4,782,106	9,334,619	14,116,725
2011-2015	19,858,453	38,156,774	58,015,227
2016-2020	6,764,783	21,632,311	28,397,094
2021-2025	662,680	15,306,981	15,969,661
2026-2030	-	11,878,030	11,878,030
2031-2034	<u>-</u>	<u>9,508,225</u>	<u>9,508,225</u>
Total	<u>\$ 55,495,017</u>	<u>\$136,834,880</u>	<u>\$192,329,897</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, 2005, \$39,455,000 of bonds outstanding are considered defeased.

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>2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2005</u>
Accrued vacation:				
Governmental activities	\$ 1,682,194	\$ 2,098,491	\$ 2,313,443	\$ 1,467,242
Business-type activities	<u>602,436</u>	<u>618,540</u>	<u>582,442</u>	<u>638,534</u>
Total accrued vacation	<u>\$ 2,284,630</u>	<u>\$ 2,717,031</u>	<u>\$ 2,895,885</u>	<u>\$ 2,105,776</u>
Capital leases:				
Governmental activities	\$ 1,663,615	\$ -	\$ 390,779	\$ 1,272,836
Business-type activities	<u>3,298,664</u>	<u>-</u>	<u>609,487</u>	<u>2,689,177</u>
Total capital leases	<u>\$ 4,962,279</u>	<u>\$ -</u>	<u>\$ 1,000,266</u>	<u>\$ 3,962,013</u>

Debt service requirements for capital lease obligations are as follows:

<u>Year Ending</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
2006	\$ 341,504	\$ 626,250	\$ 967,754
2007	312,147	590,590	902,737
2008	235,620	590,590	826,210
2009	216,873	514,680	731,553
2010	191,660	514,680	706,340
Thereafter	<u>127,865</u>	<u>171,559</u>	<u>299,424</u>
	1,425,669	3,008,349	4,434,018
Less interest	<u>152,833</u>	<u>319,172</u>	<u>472,005</u>
	<u>\$ 1,272,836</u>	<u>\$ 2,689,177</u>	<u>\$ 3,962,013</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

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

At December 31, 2005, the long-term debt of the discretely presented component units consisted of the following:

	Balance Outstanding January 1, <u>2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2005</u>
2003 Guaranteed Parking Revenue Bonds, 2.00% to 3.90% interest, serial portion payable in increasing annual installments of \$440,000 in 2005 to \$355,000 in 2016	\$ 4,595,000	\$ -	\$ 440,000	\$ 4,155,000
2004 Guaranteed Parking Revenue Refunding Bonds, 1.75% to 3.50% interest, serial portion payable in increasing annual installments of \$555,000 in 2005 to \$695,000 in 2013	5,565,000	-	555,000	5,010,000
2005 Guaranteed Parking Revenue Bonds, 3.50% to 4.375% interest, serial portion payable in increasing annual installments of \$235,000 in 2006 to \$730,000 in 2035	-	12,265,000	-	12,265,000
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; mortgage was repaid in May 2005	191,707	-	191,707	-
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; mortgage was repaid in May 2005	892,609	-	892,609	-

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

	Balance Outstanding January 1, <u>2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2005</u>
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	\$ 37,432	\$ -	\$ 25,008	\$ 12,424
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; mortgage was repaid in May 2005	2,257,340	-	2,257,340	-
Mortgage payable to Merrill Lynch Mortgage Trust (originated with Countrywide Commercial Real Estate Finance, Inc.); secured by land and buildings of Bridgeworks Industrial Center; payable for a 10-year term with 15 year amortization in monthly installments of \$25,237 including payment of principal and interest at 5.78% fixed, ballooning in June 2015; additional monthly payment of \$14,122 is required to fund escrow accounts subject to specified withdrawal conditions; AEDC is required to comply with certain continuing loan provisions	-	4,000,000	-	4,000,000
Total long-term debt	13,539,088	16,265,000	4,361,664	25,442,424
Less unamortized deferred costs of refunding	442,308	-	40,886	401,422
	<u>\$ 13,096,780</u>	<u>\$ 16,265,000</u>	<u>\$ 4,320,778</u>	<u>\$ 25,041,002</u>

CITY OF ALLENTOWN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

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 \$14,341,653, 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>
2006	\$ 2,099,657	\$ 315,266	\$ 2,414,923
2007	2,072,656	302,841	2,375,497
2008	2,078,156	302,841	2,380,997
2009	2,076,112	302,842	2,378,954
2010	1,850,624	302,842	2,153,466
2011-2015	7,836,820	4,547,419	12,384,239
2016-2020	4,201,072	-	4,201,072
2021-2025	3,836,569	-	3,836,569
2026-2030	3,829,860	-	3,829,860
2031-2035	<u>3,828,500</u>	<u>-</u>	<u>3,828,500</u>
Total	<u>\$33,710,026</u>	<u>\$ 6,074,051</u>	<u>\$39,784,077</u>

## 9. RISK MANAGEMENT, ACCRUED CLAIMS LIABILITY

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

	<u>2005</u>	<u>2004</u>
Accrued claims liability, January 1,	\$ 2,579,096	\$ 2,990,486
Incurring claims (including estimated claims incurred but not reported as of December 31):		
Provision for current year events	1,069,605	616,962
Payments	<u>(1,854,541)</u>	<u>(1,028,352)</u>
Accrued claims liability, December 31	<u>\$ 1,794,160</u>	<u>\$ 2,579,096</u>
Current portion	<u>\$ 1,794,160</u>	<u>\$ 2,579,096</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, 153 retirees plus their dependents meet those eligibility requirements. Such benefits are provided in accordance with various union contracts. The retirees contribute 25% 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, 2005, expenditures of approximately \$1,000,000 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, 2005, 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. LITIGATION**

### **PRIMARY GOVERNMENT**

The City is involved in various lawsuits arising in the ordinary course of its municipal activities. Management believes that the resolution of these actions is not expected to have a material adverse effect on the financial statements of the City.

### **13. FUND DEFICIT**

The General Fund has an accumulated deficit of \$2,711,620 at December 31, 2005. The Internal Service Fund has an accumulated deficit of \$2,430,337 and is the result of health insurance and workers compensation costs in excess of amounts contributed by other funds. In 2006, the City plans to reduce the deficit by controlling expenditures, not filling vacant personnel positions, economic development in the City's downtown and raising taxes.

### **14. NEW ACCOUNTING PRONOUNCEMENTS**

The following standards will be effective in the future for the City:

In May 2004, the GASB issued its Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which applies to other postemployment benefit (OPEB) plans that are included as trust funds in the financial reports of plan sponsors or employers, and to stand-alone financial reports of OPEB plans. GASB Statement 43 provides guidance for the accounting and reporting by such plans for healthcare and other nonpension benefits provided to employees as part of their compensation for services, and supersedes GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*.

In June 2004, the GASB issued its Statement No. 44, *Economic Condition Reporting: The Statistical Section*. GASB Statement No. 44 updates the statistical section that accompanies a state or local government's basic financial statements to reflect changes that have taken place, include the comprehensive government-wide financial information required by GASB Statement 34. GASB Statement 44 requires governments to augment their schedules with notes regarding sources, methodologies and assumptions, and narrative explanations of unfamiliar concepts, atypical trends and anomalous data.

The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which applies to state and local government employers that provide postemployment benefits other than pensions (OPEB) to employees. The statement provides guidance on the accounting and reporting by employers for the costs and obligations of postemployment healthcare and other nonpension benefits provided to employees as part of their compensation for services. In addition, for the OPEB plans in which the employer participates, the statement requires certain disclosures, including disclosures regarding the employer's funding policy and the actuarial process and assumptions.

The GASB has issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*, which clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government (e.g., citizens, public interest groups, or the judiciary) can compel a government to honor. GASB 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is re-evaluated.

The GASB has issued GASB Statement No. 47, *Accounting for Termination Benefits*. This standard provides guidance to governmental employers when measuring, recognizing and reporting expenses and liabilities associated with termination benefits paid to employees. GASB 47 addresses all termination benefits including: (1) voluntary termination benefits without limitation as to the period of time during which the benefits are offered and (2) involuntary termination benefits. GASB 47 addresses the interaction of this standard and those prescribed in GASB Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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## CITY OF ALLENTOWN, PENNSYLVANIA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
 BUDGETARY BASIS - GENERAL FUND AND PENNSYLVANIA MOTOR FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2005

General Fund				
	Original Budget	Final Budget	Actual	Variance
<b><u>TAXES:</u></b>				
Real estate:				
Current	\$ 29,863,474	\$ 29,863,474	\$ 28,226,175	\$ (1,637,299)
Prior year	1,530,000	1,530,000	1,088,944	(441,056)
Lehigh County Tax Claims	51,000	51,000	7,095	(43,905)
Total Real Estate Taxes	31,444,474	31,444,474	29,322,214	(2,122,260)
Act 511 Taxes:				
Earned Income	6,700,000	6,700,000	7,176,320	476,320
Residence	280,000	280,000	256,510	(23,490)
Amusement Devices	26,500	26,500	27,647	1,147
Deed Transfer	1,500,000	1,500,000	2,458,166	958,166
Occupational Privilege	330,600	330,600	383,660	53,060
Business Privilege	6,200,000	6,200,000	5,987,283	(212,717)
Total Act 511 Taxes	15,037,100	15,037,100	16,289,586	1,252,486
TOTAL TAXES	46,481,574	46,481,574	45,611,800	(869,774)
<b><u>LICENSES AND PERMITS:</u></b>				
Business Licenses	385,000	385,000	372,161	(12,839)
Billboard & Sign Permits/Licenses	12,100	12,100	9,510	(2,590)
Building Permits & Licenses	440,000	440,000	434,381	(5,619)
Liquor Licenses	60,000	60,000	63,350	3,350
Plumbing Permits & Licenses	110,000	110,000	143,144	33,144
Health Bureau Permits & Licenses	140,000	140,000	146,348	6,348
Rental Unit Inspections	535,000	535,000	502,108	(32,892)
Electrical Permits & Licenses	137,500	137,500	152,124	14,624
Zoning Permits & Fees	85,000	85,000	103,257	18,257
Fire Department Inspection Fees	50,849	50,849	59,685	8,836
CATV Franchise Fees	1,024,377	1,024,377	925,422	(98,955)
Other Permits & Licenses	142,452	142,452	151,357	8,905
TOTAL LICENSES AND PERMITS	3,122,278	3,122,278	3,062,847	(59,431)

Pennsylvania Motor Fund

<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
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## CITY OF ALLENTOWN, PENNSYLVANIA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
 BUDGETARY BASIS - GENERAL FUND AND PENNSYLVANIA MOTOR FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2005

General Fund				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><u>FINES AND FORFEITS:</u></b>				
District Court	\$ 497,859	\$ 497,859	\$ 413,788	\$ (84,071)
Fines & Restitution	170,000	170,000	142,110	(27,890)
<b>TOTAL FINES AND FORFEITS</b>	<b>667,859</b>	<b>\$667,859</b>	<b>\$555,898</b>	<b>(\$111,961)</b>
<b><u>INTERGOVERNMENTAL REVENUES:</u></b>				
Health Grants Acts 315 & 12	800,000	800,000	999,675	199,675
Health Categorical Grants	1,806,239	1,807,232	1,877,793	70,561
Police Training	204,370	204,370	221,094	16,724
PA Liquid Fuels Tax				
Snow Control			100,883	100,883
State Aid for Pension	3,800,000	3,800,000	3,755,742	(44,258)
Police Grants/Reimbursements	900,000	931,937	837,920	(94,017)
Other Grants/Miscellaneous	164,725	243,950	1,411,955	1,168,005
<b>TOTAL INTERGOVERNMENTAL REVENUES</b>	<b>7,675,334</b>	<b>7,787,489</b>	<b>9,205,062</b>	<b>1,417,573</b>
<b><u>CHARGES FOR SERVICES:</u></b>				
Department Earnings:				
Tax/Municipal Certifications	110,000	110,000	189,255	79,255
A.S.D. Tax Billing/Reimbursement	58,000	58,000	58,303	303
Police Extra Duty Jobs	90,000	90,000	174,786	84,786
Health Bureau Services	10,000	10,000	5,100	(4,900)
Street Excavation/Restoration	80,000	80,000	69,095	(10,905)
Printing & Copier Fees	92,038	92,038	120,513	28,475
Other Charges for Service	100,000	100,000	184,119	84,119
Vehicle Towing Agreement	76,000	76,000	78,171	2,171
911 Phone Line Service Charges	1,046,948	1,046,948	998,577	(48,371)
EMS Transit Fees	2,725,000	2,725,000	2,801,794	76,794
Warrants of Survey	20,000	20,000	19,619	(381)
<b>Total Departmental Earnings</b>	<b>4,407,986</b>	<b>4,407,986</b>	<b>4,699,332</b>	<b>291,346</b>

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Pennsylvania Motor Fund

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<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
\$ 1,680,048	\$ 1,680,048	\$ 1,684,557	\$ 4,509
9,200	9,200	7,606	(1,594)
1,689,248	1,689,248	1,692,163	2,915

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CITY OF ALLENTOWN, PENNSYLVANIA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
BUDGETARY BASIS - GENERAL FUND AND PENNSYLVANIA MOTOR FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

General Fund				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Municipal Recreation:				
Swimming Pool Fees	83,414	83,414	119,144	35,730
Recreation Fees	86,806	86,806	60,770	(26,036)
Total Municipal Recreation	170,220	170,220	179,914	9,694
General Fund Service Charges:				
Water Service Charges	1,545,679	1,545,679	1,545,679	-
Sewer Service Charges	1,239,422	1,239,422	1,239,422	-
Other Service Charges	521,322	521,322	521,322	-
Total General Fund Service Charges	3,306,423	3,306,423	3,306,423	-
TOTAL CHARGES FOR SERVICE	7,884,629	7,884,629	8,185,669	301,040
INVESTMENT INCOME	865,312	865,312	448,446	(416,866)
OTHER INCOME:				
Rental of City Property	82,000	82,000	75,614	(6,386)
Parking Garage Rents	57,000	57,000	57,600	600
Workers Compensation Refunds	50,000	50,000		(50,000)
Contributions	100,000	177,155	97,667	(79,488)
Damage to City Property	45,000	45,000	32,677	(12,323)
Lights in the Parkway	165,000	165,000	153,015	(11,985)
CD Block Grant Reimbursement	926,652	926,652	384,313	(542,339)
Pennsylvania Utility Realty Tax	71,296	71,296	65,900	(5,396)
Allentown Housing Authority	45,000	45,000	79,602	34,602
Recreation/Special Events	133,622	168,622	2,630	(165,992)
City Auction Proceeds	10,000	10,000	83,825	73,825
Equipment Fund Transfer	493,104	500,404	500,404	-
Miscellaneous	1,370,100	1,335,100	555,198	(779,902)
TOTAL OTHER INCOME	3,548,774	3,633,229	2,088,445	(1,544,784)
TOTAL REVENUES	\$ 70,245,760	\$ 70,442,370	\$ 69,158,167	\$ (1,284,203)

Pennsylvania Motor Fund			
<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
20,000	20,000	28,054	8,054

5,000	5,000	2,950	(2,050)
5,000	5,000	2,950	(2,050)
\$ 1,714,248	\$ 1,714,248	\$ 1,723,167	\$ 8,919

## CITY OF ALLENTOWN, PENNSYLVANIA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
 BUDGETARY BASIS - GENERAL FUND AND PENNSYLVANIA MOTOR FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2005

General Fund				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:				
<u>GENERAL GOVERNMENT:</u>				
Nondepartmental:				
City Council	506,137	506,290	282,566	223,724
Office of the Mayor	493,882	493,882	466,823	27,059
City Controller	244,099	244,239	220,882	23,357
Law	492,013	492,013	442,371	49,642
General and Civic	658,477	845,370	794,379	50,991
Total Nondepartmental	2,394,608	2,581,794	2,207,021	374,773
Department of Finance				
Finance	3,073,274	3,076,565	2,872,266	204,299
Information Systems	1,320,791	1,327,935	993,351	334,584
Total Department of Finance	4,394,065	4,404,500	3,865,617	538,883
Human Resources	450,946	508,089	395,438	112,651
Total Human Resources	450,946	508,089	395,438	112,651
TOTAL GENERAL GOVERNMENT	7,239,619	7,494,383	6,468,076	1,026,307
<u>PUBLIC SAFETY:</u>				
Department of Public Safety:				
Police	21,457,190	21,677,470	22,885,477	(1,208,007)
Fire	10,806,502	10,863,164	11,405,998	(542,834)
Communications	2,380,306	2,401,564	2,130,581	270,983
TOTAL PUBLIC SAFETY	34,643,998	34,942,198	36,422,056	(1,479,858)
<u>PUBLIC WORKS</u>				
Department of Public Works:				
Director's office	107,273	114,978	105,641	9,337
Engineering	212,168	258,126	249,347	8,779
Building Maintenance	1,728,605	1,729,668	1,561,880	167,788
Fleet Maintenance Operation	1,955,960	1,960,255	1,953,730	6,525
Streets	1,727,847	1,675,867	1,557,016	118,851
Traffic Planning and Control	849,324	1,415,825	970,826	444,999
Street Lighting	913,274	1,024,955	1,024,376	579
TOTAL PUBLIC WORKS	7,494,451	8,179,674	7,422,816	756,858

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Pennsylvania Motor Fund

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<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
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1,735,914	1,944,585	1,813,562	131,023
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1,735,914	1,944,585	1,813,562	131,023
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CITY OF ALLENTOWN, PENNSYLVANIA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
BUDGETARY BASIS - GENERAL FUND AND PENNSYLVANIA MOTOR FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

General Fund				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><u>HEALTH AND SANITATION:</u></b>				
Department of Community Development:				
Health	3,469,306	3,759,000	3,325,064	433,936
<b>TOTAL HEALTH AND SANITATION</b>	<b>3,469,306</b>	<b>3,759,000</b>	<b>3,325,064</b>	<b>433,936</b>
<b><u>PARKS AND RECREATION:</u></b>				
Department of Community Development:				
Park Maintenance	1,189,885	698,153	422,105	276,048
Recreation	882,226	708,674	453,645	255,029
Swimming Pool Operation	159,582	159,582	185,642	(26,060)
<b>TOTAL PARKS AND RECREATION</b>	<b>2,231,693</b>	<b>1,566,409</b>	<b>1,061,392</b>	<b>505,017</b>
<b><u>COMMUNITY DEVELOPMENT:</u></b>				
Department of Community Development:				
Director's Office	1,173,223	1,826,058	1,479,873	346,185
Planning and Zoning	655,286	813,292	743,850	69,442
Building Standards & Safety	2,395,294	3,049,128	2,461,062	588,066
<b>TOTAL COMMUNITY DEVELOPMENT AND PLANNING</b>	<b>4,223,803</b>	<b>5,688,478</b>	<b>4,684,785</b>	<b>1,003,693</b>
<b>CAPITAL OUTLAYS</b>	<b>1,085,438</b>	<b>1,287,834</b>	<b>929,645</b>	<b>358,189</b>
<b>TOTAL CAPITAL OUTLAYS</b>	<b>1,085,438</b>	<b>1,287,834</b>	<b>929,645</b>	<b>358,189</b>
<b>TOTAL EXPENDITURES</b>	<b>60,388,308</b>	<b>62,917,976</b>	<b>60,313,834</b>	<b>2,604,142</b>
Excess (deficiency) of revenues over (under) expenditures	<b>\$ 9,857,452</b>	<b>\$ 7,524,394</b>	<b>\$ 8,844,333</b>	<b>\$ 1,319,939</b>

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Pennsylvania Motor Fund

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<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>

1,735,914	1,944,585	1,813,562	131,023
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\$	(21,666)	\$	(230,337)	\$	(90,395)	\$	139,942
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CITY OF ALLENTOWN, PENNSYLVANIA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
BUDGETARY BASIS - GENERAL FUND AND PENNSYLVANIA MOTOR FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

General Fund				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Operating Transfers In:				
Sewage Capacity Sales	927,000	997,500	997,500	-
Homeland Security for Water/Sewer	200,000	200,000	200,000	-
Trexler Maintenance Grant			1,341,917	1,341,917
Operating Transfers Out:				
Debt Service Fund	(5,978,373)	(5,978,373)	(7,917,472)	(1,939,099)
Internal Service Fund	(2,387,457)	(2,387,457)	(2,387,457)	-
<b>TOTAL OTHER FINANCING SOURCES (uses) r</b>	<b>(7,238,830)</b>	<b>(7,168,330)</b>	<b>(7,765,512)</b>	<b>(597,182)</b>
 Net change in fund balances:	 <u>\$ 2,618,622</u>	 <u>\$ 356,064</u>	 \$ 1,078,821	 <u>\$ 722,757</u>
 Add back reserve for encumbrances			990,700	
Net effect of other income, and expenditure accruals			<u>(1,468,933)</u>	
 Net change in fund balances			600,588	
 FUND BALANCES (DEFICIT), BEGINNING OF YEAR			<u>(3,312,208)</u>	
 FUND BALANCES (DEFICIT), END OF YEAR			<u>\$ (2,711,620)</u>	

See notes to financial statements.

Schedule consists of both facing pages

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Pennsylvania Motor Fund

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<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
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<u>\$ (21,666)</u>	<u>\$ (230,337)</u>	\$ (90,395)	<u>\$ 139,942</u>
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207,524

(10,257)

106,872

490,809

\$ 597,681

## CITY OF ALLENTOWN, PENNSYLVANIA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
 BUDGETARY BASIS - CAPITAL PROJECTS AND DEBT SERVICE FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2005

	Capital Projects			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:				
Capital Contributions	\$ 1,425,000	\$ 1,425,000	\$ 1,425,000	
Charges for services		9,886	310,836	\$ 300,950
Intergovernmental revenues	7,060,477	9,060,477	2,109,473	(6,951,004)
Other	500,000	515,368	191,526	(323,842)
Total revenues	<u>8,985,477</u>	<u>11,010,731</u>	<u>4,036,835</u>	<u>(6,973,896)</u>
EXPENDITURES:				
Current:				
General government				
Capital outlay	40,394,006	42,025,274	14,394,474	27,630,800
Debt service-principal				
Debt service-interest				
Total expenditures	<u>40,394,006</u>	<u>42,025,274</u>	<u>14,394,474</u>	<u>27,630,800</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(31,408,529)</u>	<u>(31,014,543)</u>	<u>(10,357,639)</u>	<u>20,656,904</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers-out				
Operating transfers-in	300,000	-		
Bond Issue Proceeds	3,839,735	3,839,735		(3,839,735)
Total other financing sources (uses), net	<u>4,139,735</u>	<u>3,839,735</u>	<u>-</u>	<u>(3,839,735)</u>
Net change in fund balances	<u>\$ (27,268,794)</u>	<u>\$ (27,174,808)</u>	<u>(10,357,639)</u>	<u>\$ 16,817,169</u>
Add back reserve for encumbrances			5,783,483	
Net effect of other income, and expenditure accruals			<u>1,284,284</u>	
Net change in fund balances			<u>(3,289,872)</u>	
FUND BALANCES (DEFICIT), BEGINNING OF YEAR			<u>6,650,139</u>	
FUND BALANCES (DEFICIT), END OF YEAR			<u>\$ 3,360,267</u>	

See notes to financial statements.

Schedule consists of both facing pages

Debt Service		
Original and Final Budget	Actual	Variance
-	-	-
\$ 22,500	\$ 20,798	\$ 1,702
4,230,000	4,230,000	-
3,971,511	3,971,511	-
8,224,011	8,222,309	1,702
(8,224,011)	(8,222,309)	(1,702)
8,224,011	8,222,309	1,702
8,224,011	8,222,309	1,702
\$ -	-	\$ -
	-	
	-	
\$ -	-	

## **BUDGETS AND BUDGETARY ACCOUNTING**

Annual budgets as required by the City Charter are adopted by City Council on a cash basis and include appropriations to cover prior and anticipated current encumbrances. Appropriations not reserved for encumbrances lapse at the year end. Budgets are legally adopted for the General Fund, Pennsylvania Motor Fund, Debt Service Fund and Capital Projects Fund.

The City Administration on or before November 1 presents the proposed budgets to City Council. A series of public hearings and discussions occur related to the budgets and on or before December 15, City Council approves the budgets. At the time of the budget adoptions, City Council adopts various ordinances related to tax rates and other rates and fees.

The City Charter requires the City's legal level of budgetary control to be at the fund level. As a management control, the Finance Director has the power to authorize the transfer of any unexpended balance between accounts within a fund, provided such transfers do not exceed \$5,000. Transfers that exceed \$5,000 must be approved by a majority of City Council. All transfers between funds and increases or decreases in appropriations must be approved by ordinance of City Council.

For the year ended December 31, 2005, for all legally budgeted funds, budgetary expenditures did not exceed appropriations.

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# CITY OF ALLENTOWN, PENNSYLVANIA

## SCHEDULES OF FUNDING PROGRESS (UNAUDITED) FOR THE YEAR ENDED DECEMBER 31, 2005

### 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, 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) %
January 1, 2005	90,697,840	86,407,368	(4,290,467)	104.97 %	23,686,928	(18.11) %

### 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, 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) %
January 1, 2005	25,215,689	28,033,347	2,817,658	89.95 %	431,051	653.67 %

See Notes to Financial Statements

# CITY OF ALLENTOWN, PENNSYLVANIA

## SCHEDULES OF FUNDING PROGRESS (UNAUDITED) FOR THE YEAR ENDED DECEMBER 31, 2005

### Policemen's Pension Fund 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)	OALL/(UAAL) As a Percentage of Covered Payroll ((b-a)/c)
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	109.09 %
January 1, 2005	62,621,976	110,991,994	48,370,018	56.42 %	9,429,081	512.99 %

### Firemen's Pension Fund 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)	OALL/(UAAL) As a Percentage of Covered Payroll ((b-a)/c)
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 %
January 1, 2005	42,012,732	61,631,376	19,618,644	68.17 %	7,310,105	268.38 %

See Notes to Financial Statements

# CITY OF ALLENTOWN, PENNSYLVANIA

## SCHEDULES OF EMPLOYER'S CONTRIBUTIONS (UNAUDITED) FOR THE SIX YEARS ENDED DECEMBER 31, 2005

### City of Allentown Plans

Year Ended	Officers and Employees			Policemen			Firemen			Pennsylvania Municipal Retirement System		
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Annual Required Contribution	Percentage Contribution	Percentage Contribution
December 31, 2000	-	N/A	\$ 791,507	100 %	100 %	\$ 30,181	100 %	100 %	\$ 899,913	100 %	100 %	100 %
December 31, 2001	-	N/A	927,478	100 %	100 %	-	N/A %	N/A %	1,184,416	100 %	100 %	100 %
December 31, 2002	-	N/A	1,193,784	100 %	100 %	187,918	100 %	100 %	1,196,266	100 %	100 %	100 %
December 31, 2003	-	N/A	1,244,249	100 %	100 %	419,298	100 %	100 %	1,271,102	100 %	100 %	100 %
December 31, 2004	-	N/A	2,576,421	100 %	100 %	933,502	100 %	100 %	329,361	100 %	100 %	100 %
December 31, 2005	-	N/A	2,812,373	100 %	100 %	1,018,632	100 %	100 %	345,520	100 %	100 %	100 %

See Notes to Financial Statements

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - POLICEMEN, FIREMEN AND OFFICERS AND EMPLOYEES PENSION FUNDS FOR THE YEAR ENDED DECEMBER 31, 2005

	Policemen Pension Fund		Firemen Pension Fund		Officers and Employees Pension Fund	
	January 1, 2002	Entry Age Normal	January 1, 2002	Entry Age Normal	January 1, 2002	Entry Age Normal
Valuation date	January 1, 2002	Level dollar	January 1, 2002	Adjustment equal to 10% of excess assets over accrued liability	January 1, 2002	Adjustment equal to 10% of excess assets over accrued liability
Actuarial cost method	Entry Age Normal	13.8 years	Entry Age Normal	Closed	Entry Age Normal	Closed
Amortization method	Level dollar	13.8 years	Adjustment equal to 10% of excess assets over accrued liability	Fair Market Value	Adjustment equal to 10% of excess assets over accrued liability	Fair Market Value
Amortization period	13.8 years	13.8 years	Closed	Fair Market Value	Closed	Fair Market Value
Asset value method	Fair Market Value	Fair Market Value	Fair Market Value	Fair Market Value	Fair Market Value	Fair Market Value
Actuarial assumptions:						
Investment rate of return	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Projected salary increases	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

**CITY OF ALLENTOWN, PENNSYLVANIA****COMBINING BALANCE SHEET  
NON-MAJOR AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Earned Income Tax Escrow	Payroll Withholding Fund	Tax Collection Fund	Totals
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 3,475,446	\$ 1,004,941	\$ 4,448,325	\$ 8,928,712
TOTAL	\$ 3,475,446	\$ 1,004,941	\$ 4,448,325	\$ 8,928,712
<b><u>LIABILITIES</u></b>				
Payroll tax liabilities		\$ 1,004,941		\$ 1,004,941
Due to other governments	\$ 3,475,446		\$ 4,448,325	7,923,771
TOTAL	\$ 3,475,446	\$ 1,004,941	\$ 4,448,325	\$ 8,928,712

CITY OF ALLENTOWN, PENNSYLVANIA

COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES -  
NON-MAJOR AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
<b>EARNED INCOME TAX ESCROW:</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 3,637,886	\$ 32,648,245	\$ 32,810,685	\$ 3,475,446
Due from other funds	-	484,752	484,752	-
<b>Total assets</b>	<b>\$ 3,637,886</b>	<b>\$ 33,132,997</b>	<b>\$ 33,295,437</b>	<b>\$ 3,475,446</b>
<b>Liabilities:</b>				
Due to other funds	\$ -	\$ 7,176,320	\$ 7,176,320	\$ -
Due to other governments	3,637,886	25,956,677	26,119,117	3,475,446
<b>Total liabilities</b>	<b>\$ 3,637,886</b>	<b>\$ 33,132,997</b>	<b>\$ 33,295,437</b>	<b>\$ 3,475,446</b>
<b>PAYROLL WITHHOLDING FUNDS:</b>				
Cash and cash equivalents	\$ 994,408	\$ 13,660,520	\$ 13,649,987	\$ 1,004,941
<b>Total assets</b>	<b>\$ 994,408</b>	<b>\$ 13,660,520</b>	<b>\$ 13,649,987</b>	<b>\$ 1,004,941</b>
<b>Liabilities:</b>				
Payroll tax liability	\$ 994,408	\$ 13,175,768	\$ 13,165,235	\$ 1,004,941
Due to other funds	-	484,752	484,752	-
<b>Total liabilities</b>	<b>\$ 994,408</b>	<b>\$ 13,660,520</b>	<b>\$ 13,649,987</b>	<b>\$ 1,004,941</b>
<b>TAX COLLECTION FUND:</b>				
Cash and cash equivalents	\$ 1,183,072	\$ 95,679,091	\$ 92,413,838	\$ 4,448,325
<b>Total assets</b>	<b>\$ 1,183,072</b>	<b>\$ 95,679,091</b>	<b>\$ 92,413,838</b>	<b>\$ 4,448,325</b>
<b>Liabilities:</b>				
Due to other funds	\$ -	\$ 23,275,254	\$ 23,275,254	\$ -
Due to other governments	1,183,072	72,403,837	69,138,584	4,448,325
<b>Total liabilities</b>	<b>\$ 1,183,072</b>	<b>\$ 95,679,091</b>	<b>\$ 92,413,838</b>	<b>\$ 4,448,325</b>
<b>TOTAL ALL AGENCY FUNDS:</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 5,815,366	\$ 141,987,856	\$ 138,874,510	\$ 8,928,712
Due from other funds	-	484,752	484,752	-
<b>Total assets</b>	<b>\$ 5,815,366</b>	<b>\$ 142,472,608</b>	<b>\$ 139,359,262</b>	<b>\$ 8,928,712</b>
<b>Liabilities:</b>				
Payroll tax liability	\$ 994,408	\$ 13,175,768	\$ 13,165,235	\$ 1,004,941
Due to other funds	-	30,936,326	30,936,326	-
Due to other governments	4,820,958	98,360,514	95,257,701	7,923,771
<b>Total liabilities</b>	<b>\$ 5,815,366</b>	<b>\$ 142,472,608</b>	<b>\$ 139,359,262</b>	<b>\$ 8,928,712</b>

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

**Last Ten Years**

<b><u>Year</u></b>	<b><u>General Government</u></b>	<b><u>Public Safety</u></b>	<b><u>Public Works</u></b>	<b><u>Health and Sanitation</u></b>	<b><u>Parks and Recreation</u></b>
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	\$5,654,308	\$32,869,199	\$8,879,470	\$3,492,039	\$1,877,648
2004	\$6,025,189	\$35,623,754	\$8,432,129	\$3,401,766	\$1,497,280
2005	\$8,350,112	\$36,144,138	\$8,952,519	\$3,322,865	\$2,323,552

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

TABLE 1

<u>Community Development</u>	<u>Debt Service</u>	<u>Capital Outlays</u>	<u>Bond Issuance Costs</u>	<u>Total</u>
\$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	\$11,570,189	\$4,556,516	\$ -	\$74,102,674
\$6,638,437	\$10,411,400	\$6,534,655	\$ -	\$76,357,156
\$8,816,554	\$6,853,329	\$9,031,443	\$ 932,830	\$80,614,274
\$8,159,802	\$8,601,511	\$6,765,457	\$ -	\$82,619,956

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**GENERAL GOVERNMENT 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>
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
2004	\$39,413,259	\$3,226,492	\$701,001	\$14,946,143	\$5,674,904
2005	\$45,635,035	\$3,062,847	\$555,898	\$18,944,800	\$4,897,309

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>
\$1,574,428	\$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
\$573,184	\$2,205,131	\$66,740,114
\$497,787	\$2,091,724	\$75,685,400

TABLE 3

## 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>
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
2004	\$39,413,259	\$24,310,225	\$6,620,027	\$6,052,939	\$2,430,068
2005	\$45,635,035	\$29,437,515	\$7,091,890	\$5,987,283	\$3,118,347

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>
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
2004	\$24,331,537	\$23,411,081	96.2%	\$829,950	\$24,241,031
2005	\$29,292,325	\$28,315,800	96.7%	\$1,121,715	\$29,437,515

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>
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%
99.6%	\$1,554,566	6.4%
100.5%	\$1,568,471	5.4%

TABLE 5

**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>
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
2004	\$1,687,383,150	\$3,374,766,300	50.0	\$3,374,766,300	50.0
2005	\$1,695,311,600	\$3,390,623,200	50.0	\$3,390,623,200	50.0

Notes: Based on 1990 County Reassessment

TABLE 6

## 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>
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
2004	14.72	39.490	10.75	64.96
2005	17.52*	41.734	10.75	70.00

## Tax Levies

<u>Year</u>	<u>City</u>	<u>School District</u>	<u>County</u>	<u>Total</u>
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
2004	\$24,331,537	\$62,682,359	\$17,830,610	\$104,844,506
2005	\$29,292,325	\$66,102,439	\$17,893,745	\$113,288,509

## 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.

\* 17.52 is the base on which the land value tax is calculated (50.40 - land and 10.723 - improvements)

TABLE 7

## CITY OF ALLENTOWN, PENNSYLVANIA

## RATIO OF OUTSTANDING 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>
1996	105,550	\$1,629,578,200	\$82,240,000	5.0%	\$779.16	3.3%
1997	105,550	\$1,627,314,750	\$85,300,000	5.2%	\$808.15	3.3%
1998	105,550	\$1,626,530,000	\$87,015,000	5.3%	\$824.40	3.2%
1999	105,550	\$1,626,659,600	\$85,715,000	5.3%	\$812.08	3.0%
2000	106,632	\$1,632,649,200	\$84,810,000	5.2%	\$795.35	2.8%
2001	106,632	\$1,642,578,150	\$84,000,000	5.1%	\$787.76	2.6%
2002	106,632	\$1,653,682,750	\$78,505,000	4.7%	\$736.22	2.4%
2003	106,632	\$1,681,170,950	\$81,925,000	4.9%	\$768.30	2.5%
2004	106,632	\$1,687,383,150	\$89,330,000	5.3%	\$837.74	2.7%
2005	106,632	\$1,695,311,600	\$85,100,000	5.0%	\$798.07	2.4%

TABLE 8

## CITY OF ALLENTOWN, PENNSYLVANIA

## LEGAL DEBT MARGIN

As of December 31, 2005

**Net Nonelectoral General Obligation Debt Limit:**

Borrowing base (1)	\$65,173,473
Percentage limitation	<u>250%</u>
Net nonelectoral debt limit	162,933,683
Less Net nonelectoral debt outstanding (2)	<u>49,765,000</u>

**REMAINING BORROWING CAPACITY AS OF DECEMBER 31, 2005** **\$113,168,683**

**Net Nonelectoral Plus Lease Rental Debt Limit:**

Borrowing base (1)	\$65,173,473
Percentage limitation	<u>350%</u>
Net nonelectoral plus lease rental debt limit	228,107,156
Less net nonelectoral debt plus lease rental debt outstanding (2)	<u>49,765,000</u>

**REMAINING BORROWING CAPACITY AS OF DECEMBER 31, 2005** **\$178,342,156**

(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 \$35,335,000, which is the outstanding balance of the 2004 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, 2005**

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	1,850,000	100%	1,850,000
1997 General Obligation Bonds	1,360,000	100%	1,360,000
1998 General Obligation Bonds	5,050,000	100%	5,050,000
2001 General Obligation Bonds	4,360,000	100%	4,360,000
2003 General Obligation Bonds	10,020,000	100%	10,020,000
2004 General Obligation Bonds	<u>60,610,000</u>	<u>100%</u>	<u>60,610,000</u>
<b>SUB TOTAL</b>	<b>85,100,000</b>	<b>100%</b>	<b>85,100,000</b>
Water Revenue Bonds:			
1993 Water Revenue Bonds	1,105,000	100%	1,105,000
1995 Water Revenue Bonds	3,360,000	100%	3,360,000
1997 Water Revenue Bonds	2,555,000	100%	2,555,000
1998 Water Revenue Bonds	4,265,000	100%	4,265,000
2001 Water Revenue Bonds	11,890,000	100%	11,890,000
2003 Water Revenue Bonds	1,790,000	100%	1,790,000
2004 Water Revenue Bonds	<u>2,765,000</u>	<u>100%</u>	<u>2,765,000</u>
<b>SUB TOTAL</b>	<b>27,730,000</b>	<b>100%</b>	<b>27,730,000</b>
Sewer Revenue Bonds:			
1993 Sewer Revenue Bonds	645,000	100%	645,000
1997 Sewer Revenue Bonds	470,000	100%	470,000
1998 Sewer Revenue Bonds	7,300,000	100%	7,300,000
2001 Sewer Revenue Bonds	1,575,000	100%	1,575,000
2003 Sewer Revenue Bonds	5,205,000	100%	5,205,000
2004 Sewer Revenue Bonds	<u>360,000</u>	<u>100%</u>	<u>360,000</u>
<b>SUB TOTAL</b>	<b>15,555,000</b>	<b>100%</b>	<b>15,555,000</b>
Allentown Parking Authority Bonds of 2003	4,155,000	100%	4,155,000
Allentown Parking Authority Bonds of 2004	5,010,000	100%	5,010,000
Allentown Parking Authority Bonds of 2005	12,265,000	100%	12,265,000
Allentown Economic Development Corporation	4,012,424	100%	4,012,424
CDBG Section 108 HUD Notes	<u>1,000,000</u>	<u>100%</u>	<u>1,000,000</u>
<b>GROSS DIRECT DEBT</b>	<b>154,827,424</b>	<b>100%</b>	<b>154,827,424</b>

**CITY OF ALLENTOWN, PENNSYLVANIA  
COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
As of December 31, 2005**

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	3,360,000	100%	3,360,000
1997 Water Revenue Bonds	2,555,000	100%	2,555,000
1998 Water Revenue Bonds	4,265,000	100%	4,265,000
2001 Water Revenue Bonds	11,890,000	100%	11,890,000
2003 Water Revenue Bonds	1,790,000	100%	1,790,000
2004 Water Revenue Bonds	2,765,000	100%	2,765,000
Sewer Revenue Bonds:			
1993 Sewer Revenue Bonds	645,000	100%	645,000
1997 Sewer Revenue Bonds	470,000	100%	470,000
1998 Sewer Revenue Bonds	7,300,000	100%	7,300,000
2001 Sewer Revenue Bonds	1,575,000	100%	1,575,000
2003 Sewer Revenue Bonds	5,205,000	100%	5,205,000
2004 Sewer Revenue Bonds	360,000	100%	360,000
Allentown Parking Authority Bonds of 2003	4,155,000	100%	4,155,000
Allentown Parking Authority Bonds of 2004	5,010,000	100%	5,010,000
Allentown Parking Authority Bonds of 2005	12,265,000	100%	12,265,000
Allentown Economic Development Corporation	<u>4,012,424</u>	100%	<u>4,012,424</u>
<b>TOTAL SELF SUPPORTING DEBT</b>	<u>68,727,424</u>	100%	<u>68,727,424</u>
<b>TOTAL DIRECT DEBT</b>	<u>86,100,000</u>	100%	<u>86,100,000</u>
<b><u>OVERLAPPING DEBT</u></b>			
Allentown School District	46,118,428	100%	46,118,428
Lehigh County General Obligation Bonds	<u>120,625,000</u>	21.2%	<u>25,572,500</u>
<b>TOTAL OVERLAPPING DEBT</b>	<u>166,743,428</u>		<u>71,690,928</u>
<b>TOTAL DIRECT AND OVERLAPPING DEBT</b>	<u>252,843,428</u>		<u>157,790,928</u>

TABLE 10

## 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>
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	\$62,621,372	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	\$70,192,774	13.3%
2001	\$5,000,000	\$4,725,143	-----	\$9,725,143	\$69,134,407	14.1%
2002	\$5,910,000	\$4,556,516	-----	\$10,466,516	\$73,748,874	14.2%
2003	\$5,955,000	\$4,456,400	-----	\$10,411,400	\$76,357,156	13.6%
2004	\$4,300,000	\$2,553,329	-----	\$6,853,329	\$80,614,274	8.5%
2005	\$4,630,000	\$3,971,511	-----	\$8,601,511	\$82,619,956	10.4%

TABLE 11

## 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	
<u>Water Fund</u>							
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
2004	\$14,360,225	\$7,775,500	\$6,584,725	\$4,191,817	\$1,509,059	\$5,700,876	1.16
2005	\$14,476,432	\$8,746,150	\$5,730,282	\$4,310,000	\$1,343,246	\$5,653,246	1.01
<u>Sewer Fund</u>							
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
2004	\$14,477,827	\$10,136,126	\$4,341,701	\$1,795,000	\$768,286	\$2,563,286	1.69
2005	\$17,101,556	\$11,481,279	\$5,620,277	\$1,875,000	\$701,711	\$2,576,711	2.18

## 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.

TABLE 12

## CITY OF ALLENTOWN, PENNSYLVANIA

## DEMOGRAPHIC STATISTICS

## Last Ten Years

<u>Year</u>	<u>Population (1)</u>	<u>School Enrollment (2)</u>
1996	105,550	15,357
1997	105,550	15,629
1998	105,550	15,629
1999	105,550	16,243
2000	106,632	16,424
2001	106,632	16,174
2002	106,632	16,693
2003	106,632	16,969
2004	106,632	17,521
2005	106,632	18,118

Data Sources:

- (1) 1995-99, estimated figure from the Lehigh-Northampton County Joint Planning Commission and the Planning Bureau of the City of Allentown. 2000-04, U.S. Department of Commerce, Bureau of the Census.
- (2) Allentown School District. Figures represent public school enrollment only.

TABLE 13

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**CONSTRUCTION AND PROPERTY VALUES**

**Last Ten Years**

<u>Year</u>	<u>Commercial Construction (1)</u>		<u>Residential Construction (1)</u>		<u>Building Permits</u>	
	<u>Units</u>	<u>Value</u>	<u>Units</u>	<u>Value</u>	<u>Permits Issued</u>	<u>Value of Buildings</u>
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
2004	35	\$167,317,409	109	\$8,424,310	1,113	\$14,343,464
2005	19	\$35,016,551	61	\$5,559,000	1,241	\$19,580,890

**Property Assessed Valuation (2)**

<u>Year</u>	<u>Commercial</u>	<u>Residential</u>	<u>Nontaxable</u>	<u>Multi-Family</u>	<u>Combination</u>	<u>Vacant Lots</u>
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
2004	\$374,465,250	\$1,021,530,450	\$424,079,700	\$223,492,850	\$53,293,100	\$14,601,500
2005	\$370,311,000	\$1,032,293,650	\$428,009,300	\$224,461,600	\$53,539,900	\$14,705,450

**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.

TABLE 14

## CITY OF ALLENTOWN, PENNSYLVANIA

## PRINCIPAL TAXPAYERS

2005

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Value</u>	<u>Percentage of Total Assessed Valuation</u>
Agere Systems, Inc.	Electronic Manufacturing	10,499,900	0.62%
Congress Associates/ South Mountain Assoc. DePaul Realty	Apartments	9,574,250	0.56%
The Morning Call, Inc.	Newspaper	7,247,250	0.43%
Mack Trucks Inc.	Truck Manufacturing	5,962,700	0.35%
The Lakes	Apartments	5,961,050	0.35%
Morris Allentown Associates LP	Apartments	5,753,700	0.34%
Lehigh Valley Hospital, Inc.	Hospital	5,372,750	0.32%
230 Riverbend Apartments LLC	Apartments	5,304,000	0.31%
Westmount LP	Apartments	5,141,850	0.31%
Allentown Commerce Park Corp	Real Estate Investment	<u>4,900,000</u>	0.29%
<b>Total</b>		<b><u>\$ 65,717,450</u></b>	<b><u>3.88%</u></b>

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**CITY OF ALLENTOWN, PENNSYLVANIA**

**RISK MANAGEMENT PROGRAM**

**As of December 31, 2005**

<b>Name of Company</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	7/1/2005	6/30/2006		
Public Official Workers' Compensation	Bill No. 43-1990	7/18/1990	Until Amended	None	
Midwest Employers Casulty Company Excess Workers' Compensation	EWC 007067	10/1/2005	10/1/2006	\$450,000	
Hatford Fire Insurance Company Crime Policy	39BPECJ 5135	7/1/2003	7/1/2006	\$10,000	
Lexington Insurance Company Commercial Property Machinery Breakdown	7077954	9/15/2005	9/15/2006	\$100,000	Per occurence except
				(1)	Flood
				(2)	Flood hazard

(1) Minimum of \$100,000 per occurence

(2) 5% of TIV at each location with a minimum of  
\$500,000 building / \$500,000 contents  
(Zone A, V)

TABLE 15

<b><u>Liability Limits</u></b>	<b><u>Annual Premium</u></b>
\$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	\$93,709
\$1,000,000 Employee Theft per loss	\$3,305
\$100,000,000 per occurrence excess of underlying self-insured retention of real and personal property and subject to the following limits (Includes terrorism):	\$129,475 Total
\$50,000,000 - for Earthquake	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	
500,000 - for Bridges	
<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	

TABLE 16

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**SALARIES AND SURETY BONDING OF PRINCIPAL OFFICERS**  
**2005**

<b><u>Name and Title</u></b>	<b><u>Salary</u></b>
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	\$45,594
Frank J. Concannon, City Controller	\$49,892
Michael P. Hanlon, City Clerk	\$64,759
Lauren Giguere, Acting Director - Community & Economic Development	\$77,600
Neal E. Kern, Director - Public Works	\$84,962
Barbara W. Bigelow, Director - Finance and Human Resources	\$82,009
D. Craig Long, Fire Chief	\$68,763
Joseph C. Blackburn, Police Chief	\$92,477

Employees are bonded by a general employee honesty blanket, position bond.

TABLE 17

## CITY OF ALLENTOWN, PENNSYLVANIA

## LABOR FORCE

2005

(000's)

<u>Year</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
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%
2004	53.7	51.1	2.6	4.8%
2005	54.4	51.4	3.0	5.5%

Source:

Pennsylvania Department of Labor and Industry

UNEMPLOYMENTAverage Unemployment Rates

<u>Year</u>	<u>City of Allentown</u>	<u>Lehigh County</u>	<u>Commonwealth of Pennsylvania</u>	<u>United States</u>
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%
2004	7.1%	5.4%	5.4%	5.5%
2005	6.6%	4.8%	5.0%	5.1%

Source:

United States Department of Labor

TABLE 18

## CITY OF ALLENTOWN, PENNSYLVANIA

## MISCELLANEOUS STATISTICAL DATA

2005

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)

TABLE 18

## CITY OF ALLENTOWN, PENNSYLVANIA

## MISCELLANEOUS STATISTICAL DATA

2005

## Fire Protection:

Six (6) stations  
135 fire fighting employees

## Police Protection

86 vehicular patrol units  
172 police officers  
18,336 law violations

## Recreation:

2,020 acres of park land  
20 playgrounds (11 city, 9 school)  
One (1) municipal golf course  
Five (5) swimming pools  
Twenty-eight (28) parks and other facilities maintained

## Education:

Schools:	Elementary	17
	Middle	4
	Senior High School	2
Administrative personnel and principals		66
Teachers		1,279
Students		18,118

Streetlights 7,761

City Employees 940

(continued)

TABLE 18

## CITY OF ALLENTOWN, PENNSYLVANIA

## MISCELLANEOUS STATISTICAL DATA

2005

## Elections

## Registered voters

Last general election	61,825
-----------------------	--------

Last primary election	61,793
-----------------------	--------

## Votes cast in:

Last general election	17,439
-----------------------	--------

Last primary election	11,237
-----------------------	--------

## Percentage of registered voters voting in:

Last general election	28.2%
-----------------------	-------

Last primary election	18.2%
-----------------------	-------

## Population:

1980 census	103,758
-------------	---------

1990 census	105,090
-------------	---------

2000 census	106,632
-------------	---------

## Retail sales:

1996	\$756,075,980
------	---------------

1997	\$838,567,420
------	---------------

1998	\$843,062,340
------	---------------

1999	\$911,752,600
------	---------------

2000	\$900,268,293
------	---------------

2001	\$961,715,113
------	---------------

2002	\$1,044,247,920
------	-----------------

2003	\$1,085,295,913
------	-----------------

2004	\$1,097,816,967
------	-----------------

2005	\$1,145,999,827
------	-----------------

**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, 2005**

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**& COMPANY**

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**Certified Public Accountants | Business Consultants**

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LISICKY  
& COMPANY

Certified Public Accountants | Business Consultants

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, 2005 and 2004, 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, 2005 and 2004, 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.

The management's discussion and analysis and pension data on pages 2 through 8 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 23, 2006

*Buckno Lisicky + Company*

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**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**Year Ended December 31, 2005**

**Introduction**

This section of the Allentown Parking Authority's audit presents Management's Discussion and Analysis of the Authority's financial performance during the fiscal year ended December 31, 2005. Readers are encouraged to consider information presented here in conjunction with the following audited financial statements and notes.

**Financial Highlights**

- Total operating revenue increased \$629,386 or 15.1% compared to 2004.
- Total operating expense increased \$54,817 or 1.8% compared to 2004.
- Interest and investment revenue increased \$90,946 or 471.2% compared to 2004.
- Additional Guaranteed Parking Revenue Bonds in the amount of \$12,265,000 were issued to provide funds for the acquisition of properties and the building of two parking garages in the downtown area.
- Total assets of the Authority increased \$12,473,698 or 77.3% compared to 2004.
- Total outstanding liabilities of the Authority increased \$11,066,743 or 100.3% compared to 2004.
- The fund balance (difference between assets and liabilities) of the Authority increased \$1,406,955 or 27.5% compared to 2004.

**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 Authority's financial condition and performance.

**Required Financial Statements**

The financial statements of the Authority report information about the 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.

The balance sheet includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the Authority'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 Authority.

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

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**Year Ended December 31, 2005**

results of the business activities over the course of the past year and can be used to determine whether the Authority has successfully recovered its costs through parking fines and parking fees.

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

Finally, the 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 Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information comparing budget to actual revenue and expenses is provided.

**Summary of Organization and Business**

The Authority 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 Authority 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 Authority administers a residential 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 Authority owns and operates 29 surface parking lots and one parking ramp, which total another 1,350 parking spaces.

The Authority 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 Authority, since its inception, has been self-supporting and has never requested any outside financial funding. The Authority has actually returned monies back to the City in the form of collected police and fire tickets and in other in-kind or cash contributions. To date, these monies total over \$1.5 million.

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

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**Year Ended December 31, 2005**

**Net Assets**

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

	2005	2004	\$ Change	% Change
Current and other assets	\$ 2,529,048	\$ 2,332,274	\$ 196,774	8.4%
Restricted assets	12,005,550	-	12,005,550	N/A
Capital assets	14,077,271	13,805,897	271,374	2.0%
Total assets	28,611,869	16,138,171	12,473,698	77.3%
Current liabilities	1,923,202	2,260,319	(337,117)	(14.9%)
Restricted liabilities	370,053	-	370,053	N/A
Long-term debt	19,804,464	8,770,657	11,033,807	125.8%
Total liabilities	22,097,719	11,030,976	11,066,743	100.3%
Invested in capital assets, net of related debt	3,949,990	3,286,291	663,699	20.2%
Unrestricted	2,564,160	1,820,904	743,256	40.8%
Total net assets	\$ 6,514,150	\$ 5,107,195	\$ 1,406,955	27.5%

Referencing the above table, the increase of both restricted assets and long-term liabilities is as a result of borrowing \$12,265,000 for the construction of two parking garages and investing the cash with the trustee, subject to withdrawals. Overall the Authority increased total net assets (assets available to finance both capital and day-to-day operations) for the year by \$1,406,955.

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

	2005	2004	\$ Change	% Change
Revenues:				
Operating revenues	\$ 4,791,417	\$ 4,162,031	\$ 629,386	15.1%
Non-operating revenues	141,622	34,328	107,294	312.6%
Capital Grant Revenue	52,327	679,493	(627,166)	(92.3%)
Total revenues	4,985,366	4,875,852	109,514	2.2%
Expenses:				
Depreciation expense	696,668	687,517	9,151	1.3%
Other operating expense	2,465,370	2,419,704	45,666	1.9%
Non-operating expense	416,373	828,336	(411,963)	(49.7%)
Contributions to City	-	224,478	(224,478)	(100.0%)
Total expenses	3,578,411	4,160,035	(581,624)	(8.6%)
Change in net assets	1,406,955	715,817	691,138	96.6%
Beginning net assets	5,107,195	4,391,378	715,817	16.3%
Ending net assets	\$ 6,514,150	\$ 5,107,195	\$ 1,406,955	27.5%

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**Year Ended December 31, 2005**

**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 Sheet. The above table reconciles total revenue of \$4,985,366 less total expenses of \$3,578,411 as the difference or positive change of \$1,406,955 in net assets for the year. The following narrative will explain the individual accounts that affect these changes.

**Revenues:**

For 2005, total revenues increased by \$109,514 to \$4,985,366 as compared to \$4,875,852 in 2004. As happened last year, the receipt and comparison of capital grant funds from the Montessori School skews the total revenue analysis. Actual operating revenue increased \$629,386 or a 15.1% change. On-street operations accounted for \$500,382 of this increase, while the off-street operations increased \$129,003.

On-street revenue includes the revenue collected from parking meters, payments for parking tickets and parking permits. Effective September 19, 2005, parking meter rates increased from \$0.50 per hour to \$1.00 per hour. In addition, the initial overtime meter fine (if paid within 10 days) increased from \$5.00 to \$10.00. Actual revenue for both parking meters and parking tickets increased \$73,917 and \$427,815 respectively. Comparatively, in 2005 a total of 103,270 valid tickets were written versus 101,316 in 2004.

Off-street revenue is basically comprised of three categories. Transient revenue, which is generated from customers that pay a daily rate to park; contract revenue from customers that pay a monthly fee to park (usually employees of downtown businesses); and Crowne Plaza Hotel parking, which includes parking paid by hotel guests or by the hotel directly at our Walnut at Ninth Parking Garage. Contract revenue from our parking garages and lots increased \$77,516 from 2004. Parking for twelve months by Lehigh County employees at both our Community Lot and 600 Linden Garage is the major component of this increase. Continued strong occupancy and use of the Hotel facilities is reflective of an increase of \$29,458 in revenue. Transient revenue at all of the Authority's lots and facilities increased by \$9,186.

Non-operating revenue is comprised of interest earnings, investment earnings and realty rental income. Total non-operating revenue totaled \$141,622 for the year or \$107,294 more than 2004. The receipt of rental payments from the Montessori School effective January 1<sup>st</sup> and investment earnings accrued on the Bond Fund until the end of the year account for this increase.

**Capital Contribution Revenue**

Revenue in the amount of \$52,327 was received in 2005 from the Montessori School Capital Pledge Campaign.

**Expenses:**

Total expenses decreased to \$3,578,411 in 2005, which is a \$581,624 decrease from 2004. The following narrative explains the effect that the various expenses had on the operation of the Authority in 2005.

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**Year Ended December 31, 2005**

**Operating Expenses**

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

Personnel costs make up over 77% of the direct costs associated with operating expenses. These costs increased by a small amount equaling \$6,318 as compared to 2004. A dividend check in the amount of \$27,411 received from the Authority's health care insurance pool reduced insurance cost by \$27,731 as compared to 2004. Workers' compensation costs were also lower this year due to a better and lower experience modification factor, which is used to determine our premium. Salaries and wages increased \$26,106 for the year or 2.5%. Overall personnel costs increased less than ½ of a percent as compared to 2004.

Services and charges, the second largest component of operating expenses, increased \$49,179 to \$522,566. Snow removal and plowing costs increased \$10,108 from 2004. A more normal winter season accounted for this increase in 2005. Real estate taxes incurred by the Authority increased \$6,264 or a 69.9% as a result of an unfavorable property tax ruling regarding the leased space in the Hess's Garage to the Montessori School. Repair and maintenance costs for 2005, increased \$14,591 as a result of sprinkler head replacement at the Tenth Street Ramp at a cost of \$6,500 and additional costs associated with maintenance contracts.

Materials and supplies, the third and smallest component of operating expenses decreased \$9,831 to \$23,488 for 2005. These costs include an increase in gasoline expenses of \$6,880 with reductions in office and operating supplies and uniforms of \$14,266 and \$2,445 respectively.

**Depreciation Expense**

Depreciation expense reflects the annual costs associated with an assets reduction (wear and tear) in value. Expenses associated with depreciation increased \$9,151 to \$696,668 for 2005. Annual depreciation for the Montessori School improvements at the Hess's Garage of \$89,268 comprises the largest depreciation account increase. Decreased parking meter, S. 8<sup>th</sup> Street and S. 9<sup>th</sup> Street reflect the largest reduction in depreciation by \$65,720.

**Non-operating Expense**

For 2005 non-operating expenses decreased \$411,963 to \$416,373. Last year the Authority realized a loss of \$400,852 on the disposition and sale of two properties, which is not included in 2005. This number coupled with less interest expense of \$13,983 and higher trustee fees of \$2,872 comprises this decrease.

**Contribution Expense**

Annually, with the mutual consent of both the City and the Authority, monies collected by the Authority for police and fire issued parking tickets were remitted to the City in the form of a contribution. Beginning in 2005 both the City and the Authority agreed to suspend this contribution for the years 2005, 2006 and 2007. This agreement was made to allow the Authority to accumulate additional funds to pay the new \$12 million debt service during the acquisition and construction period of the two new parking structures. The total cost of the structures is estimated to be about \$26 million. It is expected that the issue of contributions will be revisited prior to the 2008 year.

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**Year Ended December 31, 2005**

**Capital Assets**

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

	<b>2005</b>	<b>2004</b>	<b>\$ Change</b>	<b>% Change</b>
Land	\$ 4,711,072	\$ 4,711,072	\$ -	0.0%
Lot Improvements	1,997,622	1,997,622	-	0.0%
Buildings and improvements	790,889	790,889	-	0.0%
Leasehold Improvements	1,533,947	1,519,764	14,183	0.9%
Parking garages and lots	8,465,491	8,465,491	-	0.0%
Vehicles and equipment	1,137,541	1,098,593	38,948	3.5%
Construction in progress	701,746	60,277	641,469	1064.2%
Subtotal	19,338,308	18,643,708	694,600	3.7%
Less accumulated depreciation	5,647,305	4,979,126	668,179	13.4%
Net capital assets	<u>\$ 13,691,003</u>	<u>\$ 13,664,582</u>	<u>\$ 26,421</u>	<u>0.2%</u>

As of December 31, 2005, the Authority had invested \$13,691,003 in capital assets net of accumulated depreciation. This figure increased from 2004 by \$26,421 as a result of the following transactions during the year.

- Additional costs of \$14,183 for the City Centre located on the ground level of our Hess's Parking Garage.
- Placement of three (3) Hawk multi-space parking meters on the Farr lot at \$11,895.
- Purchase of six (6) RECON handheld ticket writers and cameo printers at \$23,488 to complement our older Symbol ticket writers and printers.
- Junking of a 1997 Chevrolet Cavalier (no book value) reducing both cost and accumulated depreciation by \$12,686.
- Purchase of a 2001 Jeep Wrangler with a snowplow at a cost of \$16,251.
- Construction in progress additions of \$641,469 due to architectural, design and acquisition costs associated with the Farr Lot Project, Allentown Transportation Center and the Government Parking Garage.

**Debt Administration**

Total outstanding debt of the Authority as of December 31, 2005, totaled \$21,369,431, which is \$11,010,886 more than 2004. This increase in debt was due to the issuance of new debt in the amount of \$12,265,000 and ongoing additional principal payments of \$1,295,000 during the year.

All bond issues of the Authority are secured by a pledge on the Authority's gross revenues. Additionally, each issue is secured by a City of Allentown guarantee with a further commitment of bond insurance through Ambac Assurance Corporation or Financial Security Assurance, Inc. All issues carry an Aaa and AAA rating from Moody's and Standard & Poor's respectively based upon their municipal bond insurance policy.

**ALLENTOWN PARKING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**Year Ended December 31, 2005**

In addition to restrictions placed on additional debt issuance by bond covenants, the Authority 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 Authority less operating expenses exceeds debt service by at least 20.0%. The following chart depicts the compliance of the Authority to this policy over the past two years.

**Debt Coverage Ratio**

	<b>2005</b>	<b>2004</b>	<b>\$ Change</b>	<b>% Change</b>
Gross revenue	\$ 4,933,039	\$ 4,196,359	\$ 736,680	17.6%
Total operating expenses (less depreciation)	2,465,370	2,419,704	45,666	1.9%
Net revenue	2,467,669	1,776,655	691,014	38.9%
Annual debt service	1,329,611	1,342,511	(12,900)	(1.0%)
Debt service coverage	<u>1.86%</u>	<u>1.32%</u>	<u>\$ 703,914</u>	<u>40.2%</u>

**Contacting the Authority's Financial Management**

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

# ALLENTOWN PARKING AUTHORITY

## BALANCE SHEETS December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,023,966	\$ 1,201,085
Certificates of deposit	1,160,000	679,000
Accounts receivable	99,574	309,730
Accrued interest receivable	44,360	4,812
Inventory	11,818	14,963
Prepaid expenses	163,716	106,461
	<u>2,503,434</u>	<u>2,316,051</u>
<b>TOTAL current assets</b>		
<b>RESTRICTED ASSETS</b>		
Cash and cash equivalents	1,731,550	-
Certificates of deposit	10,274,000	-
	<u>12,005,550</u>	<u>-</u>
<b>TOTAL restricted assets</b>		
<b>CAPITAL ASSETS, net of accumulated depreciation</b>	<u>13,691,003</u>	<u>13,664,582</u>
<b>DEFERRED CHARGES, net of accumulated amortization</b>	<u>386,268</u>	<u>141,315</u>
<b>OTHER ASSETS</b>	<u>25,614</u>	<u>16,223</u>
<b>Total assets</b>	<u>\$ 28,611,869</u>	<u>\$ 16,138,171</u>

See Notes to Financial Statements.

	<u>2005</u>	<u>2004</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Note payable, bank	\$ 340,853	\$ 640,853
Accounts payable	51,035	429,953
Accrued expenses	199,899	138,784
Bonds payable	1,224,114	954,114
Capital lease obligations	7,079	12,667
Other current liabilities	<u>100,222</u>	<u>83,948</u>
Total current liabilities	<u>1,923,202</u>	<u>2,260,319</u>
<b>RESTRICTED LIABILITIES</b>		
Accounts payable	<u>370,053</u>	<u>-</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds payable	19,804,464	8,763,578
Capital lease obligations	<u>-</u>	<u>7,079</u>
Total noncurrent liabilities	<u>19,804,464</u>	<u>8,770,657</u>
Total liabilities	<u>22,097,719</u>	<u>11,030,976</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,949,990	3,286,291
Unrestricted	<u>2,564,160</u>	<u>1,820,904</u>
Total net assets	<u>6,514,150</u>	<u>5,107,195</u>
Total liabilities and net assets	<u>\$ 28,611,869</u>	<u>\$ 16,138,171</u>

# ALLENTOWN PARKING AUTHORITY

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

Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>OPERATING REVENUE</b>		
On-street parking	\$ 3,496,864	\$ 2,996,482
Garages and lots	<u>1,294,553</u>	<u>1,165,549</u>
Total operating revenue	<u>4,791,417</u>	<u>4,162,031</u>
<b>OPERATING EXPENSES</b>		
Wages and benefits	1,919,316	1,912,998
Services and charges	522,566	473,387
Materials and supplies	23,488	33,319
Depreciation and amortization	<u>696,668</u>	<u>687,517</u>
Total operating expenses	<u>3,162,038</u>	<u>3,107,221</u>
Operating income	<u>1,629,379</u>	<u>1,054,810</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Interest income	110,250	19,304
Interest expense	(409,388)	(423,371)
Trustee fees	(6,985)	(4,113)
Realty income	31,372	15,024
Loss on disposal of assets	<u>-</u>	<u>(400,852)</u>
Total nonoperating revenue (expenses)	<u>(274,751)</u>	<u>(794,008)</u>
Income before contributions	1,354,628	260,802
<b>CAPITAL CONTRIBUTIONS</b>		
Capital contributions	52,327	679,493
Contributions to City of Allentown	<u>-</u>	<u>(224,478)</u>
Change in net assets	1,406,955	715,817
<b>NET ASSETS, beginning of year</b>	<u>5,107,195</u>	<u>4,391,378</u>
<b>NET ASSETS, end of year</b>	<u>\$ 6,514,150</u>	<u>\$ 5,107,195</u>

See Notes to Financial Statements.

# ALLENTOWN PARKING AUTHORITY

## STATEMENTS OF CASH FLOWS Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 4,788,469	\$ 4,146,522
Payments to employees	(1,991,952)	(1,925,657)
Payments to suppliers	<u>(549,498)</u>	<u>(479,089)</u>
Net cash provided by operating activities	<u>2,247,019</u>	<u>1,741,776</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Contributions to City of Allentown	<u>-</u>	<u>(55,290)</u>
Net cash used in noncapital financing activities	<u>-</u>	<u>(55,290)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(702,907)	(1,564,461)
Proceeds from sale of capital assets	-	100,000
Capital contributions	181,050	648,029
Principal payments on bond payable	(995,000)	(5,820,000)
Borrowings (payments) on short-term notes payable	(300,000)	640,853
Principal payments on capital lease obligations	(12,667)	(22,992)
Proceeds from bonds payable	12,265,000	5,565,000
Financing costs	(260,756)	(109,064)
Interest paid	(204,897)	(409,607)
Trustee fees	<u>(9,485)</u>	<u>(6,238)</u>
Net cash provided by (used in) capital and related financing activities	<u>9,960,338</u>	<u>(978,480)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of certificates of deposit	2,882,000	600,000
Purchase of certificates of deposit	(13,637,000)	(679,000)
Investment income	70,702	15,445
Realty income	<u>31,372</u>	<u>15,024</u>
Net cash used in investing activities	<u>(10,652,926)</u>	<u>(48,531)</u>

# ALLENTOWN PARKING AUTHORITY

## STATEMENTS OF CASH FLOWS Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Net increase in cash and cash equivalents	1,554,431	659,475
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,201,085</u>	<u>541,610</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 2,755,516</u></u>	<u><u>\$ 1,201,085</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 1,629,379	\$ 1,054,810
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	15,803	14,363
Depreciation	680,865	673,154
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(19,981)	(28,395)
Inventory	3,145	2,805
Prepaid expenses	(84,031)	22,254
Increase (decrease) in liabilities:		
Accounts payable	2,525	(3,539)
Accrued expenses	3,040	(34,274)
Other current liabilities	<u>16,274</u>	<u>40,598</u>
Net cash provided by operating activities	<u><u>\$ 2,247,019</u></u>	<u><u>\$ 1,741,776</u></u>

See Notes to Financial Statements.

## 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.

#### **Restricted assets:**

Cash and investments received from the issuance of long-term debt has been presented as restricted assets because the usage of such assets are limited to that set forth in the bond documents.

#### **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.

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

**Deferred charges:**

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

**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, 2005 and 2004. 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, net of unspent bond proceeds, 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 accounts in the 2004 financial statements have been reclassified for comparative purposes to conform with the presentation in the 2005 financial statements.

## ALLENTOWN PARKING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

#### Note 2. 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, 2005 and 2004 that were in violation of state statutes or applicable trust indentures.

#### Custodial credit risk – deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2005, \$612,372 of the Authority's bank balance of \$1,777,496 was exposed to custodial credit risk while for the year ended December 31, 2004, \$735,582 of the Authority's bank balance of \$1,714,582 was exposed to custodial credit risk as follows:

	<u>2005</u>	<u>2004</u>
Uninsured and collateral held by pledging banks trust department not in the Authority's name	<u>\$ 612,372</u>	<u>\$ 735,582</u>

Deposits are included in the statement of net assets as cash and cash equivalents and certificates of deposit.

Amounts invested in external investment pools are not categorized because securities are not used as evidence of the investment.

#### External investment pools:

##### Pennsylvania Treasury Department INVEST Program (INVEST)

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

## ALLENTOWN PARKING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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 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. The Authority's investment in INVEST has been rated AAAm, the highest rating available, by Standard and Poor's, an independent investment rating company. The Authority's investment in INVEST has also been rated AAA/V1+, the highest rating available, by Fitch, an independent investment rating company.

#### Pennsylvania School District Liquid Asset Fund (PSDLAF)

The Authority invests in the Pennsylvania School District Liquid Asset Fund (PSDLAF), a customized cash management program created in 1982 by the Pennsylvania School Boards Association and the Pennsylvania Association of School Business Officials to provide a unique set of benefits and enhancements for investing public funds. The general objective of the Fund is to provide its investors current income while preserving capital in a manner compatible with the needs and requirements of public school and local government entities in Pennsylvania. The pool is not SEC regulated. The investment policy of PSDLAF is guided by Section 440.1 of the Pennsylvania School Code which governs the temporary investment of funds by School Entities. The fund is managed by a Board of Trustees, who oversees, reviews, and supervises the activities of all consultants and professional Advisers to the Fund. The Trustees also retain an Executive Director of the Fund who acts as a consultant to the Fund and performs such consulting and advisory services with respect to matters concerning the operations and activities of the Fund as may from time to time be reasonably requested by the Trustees. An independent investment company has been appointed by the Trustees to act as the Fund's Investment Adviser. The fair value of the Authority's position in the PSDLAF is the same as the value of the pool shares. The Authority's investment in PSDLAF has been rated AAAm, the highest rating available, by Standard and Poor's, an independent investment rating company.

As of December 31, 2005 and 2004, the carrying amounts of external investment pool assets were \$12,513,281 and \$107,731, respectively. The fair value of external investment pool assets approximate their carrying values as of December 31, 2005 and 2004. 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 custodial credit risk table presented above.

#### Note 3. Capital Assets

Capital asset activity for the years ended December 31, 2005 and 2004 is as follows:

	Year Ended December 31, 2005			
	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Non-depreciable assets:				
Land	\$ 4,711,072	\$ -	\$ -	\$ 4,711,072

# ALLENTOWN PARKING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2005				
	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Construction in progress	60,277	641,469	-	701,746
	4,771,349	641,469	-	5,412,818
Depreciable assets:				
Lot improvements	1,997,622	-	-	1,997,622
Building and building improvements	790,889	-	-	790,889
Leasehold improvements	1,519,764	14,183	-	1,533,947
Parking garages and lots	8,465,491	-	-	8,465,491
Vehicles and Equipment	1,098,593	51,814	12,866	1,137,541
	13,872,359	65,997	12,866	13,925,490
	18,643,708	707,466	12,866	19,338,308
Less accumulated depreciation	4,979,126	681,045	12,866	5,647,305
	<u>\$ 13,664,582</u>	<u>\$ 26,421</u>	<u>\$ -</u>	<u>\$ 13,691,003</u>

Year Ended December 31, 2004				
	Balance Jan. 1, 2004	Additions	Deletions	Balance Dec. 31, 2004
Non-depreciable assets:				
Land	\$ 4,651,586	\$ 563,423	\$ 503,937	\$ 4,711,072
Construction in progress	126,072	60,277	126,072	60,277
	4,777,658	623,700	630,009	4,771,349
Depreciable assets:				
Lot improvements	2,002,283	-	4,661	1,997,622
Building and building improvements	803,032	-	12,143	790,889
Leasehold improvements	-	1,519,764	-	1,519,764
Parking garages and lots	9,412,446	-	946,955	8,465,491
Vehicles and equipment	1,027,746	70,847	-	1,098,593
	13,245,507	1,590,611	963,759	13,872,359
	18,023,165	2,214,311	1,593,768	18,643,708

# ALLENTOWN PARKING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2004			
	Balance Jan. 1, 2004	Additions	Deletions
Less accumulated depreciation	4,709,415	673,154	403,443
	<u>\$ 13,313,750</u>	<u>\$ 1,541,157</u>	<u>\$ 1,190,325</u>
			<u>\$ 13,664,582</u>

Depreciation expense for the years ended December 31, 2005 and 2004 was \$680,865 and \$673,154, respectively.

### Note 4. Deferred Charges

Deferred charges activity for the years ended December 31, 2005 and 2004 consist of the following:

Year Ended December 31, 2005			
	Balance Jan.1, 2005	Additions	Retirements
Bond issuance costs:			
Guaranteed Parking Revenue Bond Series of 2003	\$ 38,489	\$ -	\$ -
Parking Revenue Bond Series of 2004	109,064	-	-
Parking Revenue Bond Series of 2005	-	260,756	-
	<u>147,553</u>	<u>260,756</u>	<u>-</u>
Less accumulated amortization	<u>6,238</u>	<u>15,803</u>	<u>-</u>
	<u>\$ 141,315</u>	<u>\$ 244,953</u>	<u>\$ -</u>

Year Ended December 31, 2004			
	Balance Jan.1, 2004	Additions	Retirements
Bond issuance costs:			
Guaranteed Parking Revenue Refunding Bonds, Series of 1999	\$ 147,913	\$ -	\$ 147,913
Parking Revenue Bond Series of 2003	38,489	-	-
Parking Revenue Bond Series of 2004	-	109,064	-
	<u>186,402</u>	<u>109,064</u>	<u>147,913</u>
Less accumulated amortization	<u>50,481</u>	<u>14,363</u>	<u>58,606</u>
	<u>\$ 135,921</u>	<u>\$ 94,701</u>	<u>\$ 89,307</u>

# ALLENTOWN PARKING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### Note 5. 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, 2005 and 2004, the rate of this line is 5.075% and 3.375%, respectively. As of December 31, 2005 and 2004, the balance outstanding on the line of credit is \$340,853 and \$640,853, respectively.

Short-term debt activity for the years ended December 31, 2005 and 2004 is as follows:

	Year Ended December 31, 2005		
	Balance Jan 1, 2005	Additions	Balance Dec. 31, 2005
Line of credit	\$ 640,853	\$ -	\$ 340,853

	Year Ended December 31, 2004		
	Balance Jan 1, 2004	Additions	Balance Dec. 31, 2004
Line of credit	\$ -	\$ 640,853	\$ 640,853

### Note 6. Long-Term Debt

Long-term debt activity for the years ended December 31, 2005 and 2004 is as follows:

	Year Ended December 31, 2005		
	Balance Jan 1, 2005	Additions	Balance Dec. 31, 2005
<b>Revenue Bonds Payable:</b>			
Guaranteed Parking			
Parking Revenue Bond			
Series of 2003	\$ 4,595,000	\$ -	\$ 4,155,000
Parking Revenue Bond			
Series of 2004	5,565,000	-	5,010,000
Parking Revenue Bond			
Series of 2005	-	12,265,000	12,265,000
	10,160,000	12,265,000	21,430,000
Less unamortized deferred costs of refunding	442,308	-	401,422
	<u>\$ 9,717,692</u>	<u>\$ 12,265,000</u>	<u>\$ 21,028,578</u>

# ALLENTOWN PARKING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2005			
	Balance Jan 1, 2005	Additions	Retirements
			Balance Dec. 31, 2005
<u>Capital Leases Obligations:</u>			
Vehicles	\$ 19,746	\$ -	\$ 12,667
			\$ 7,079

Year Ended December 31, 2004			
	Balance Jan 1, 2004	Additions	Retirements
			Balance Dec. 31, 2004
<u>Revenue Bonds Payable:</u>			
Guaranteed Parking Revenue Refunding Bonds, Series of 1999	\$ 5,445,000	\$ -	\$ 5,445,000
Parking Revenue Bond Series of 2003	4,970,000	-	375,000
Parking Revenue Bond Series of 2004	-	5,565,000	-
	10,415,000	5,565,000	5,820,000
			10,160,000
Less unamortized deferred costs of refunding	386,445	89,307	33,444
			442,308
	\$ 10,028,555	\$ 5,475,693	\$ 5,786,556
			\$ 9,717,692

### Capital Leases Obligations:

Vehicles	\$ 42,738	\$ -	\$ 22,992	\$ 19,746
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A summary of each revenue bond payable and lease is provided in the ensuing paragraphs.

### *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.

The Bonds were currently refunded with the issuance of the Guaranteed Parking Revenue Refunding Bonds, Series of 2004 on September 15, 2004.

## 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, 2005 is as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
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>\$ 4,155,000</u>		<u>\$ 797,420</u>	<u>\$ 4,952,420</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 full payment of principal and interest on the Bonds. The bonds are secured by a pledge of Authority revenues.

#### *Guaranteed Parking Revenue Refunding Bonds, Series of 2004*

On September 15, 2004, the Authority issued the Guaranteed Parking Revenue Refunding Bonds, Series of 2004, in the amount of \$5,565,000. The proceeds of the Bonds were used to currently refund the remaining outstanding Guaranteed Parking Revenue Refunding Bonds, Series of 1999 and to pay the costs of issuing and insuring the Bonds.

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, 2005 is as follows:

# ALLENTOWN PARKING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

<u>Year</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
2006	\$ 570,000	1.75%	\$ 147,600	\$ 717,600
2007	580,000	3.00%	137,625	717,625
2008	600,000	3.00%	120,225	720,225
2009	615,000	2.75%	102,225	717,225
2010	630,000	3.00%	85,313	715,313
2011	650,000	3.125%	66,412	716,412
2012	670,000	3.25%	46,100	716,100
2013	<u>695,000</u>	3.50%	<u>24,325</u>	<u>719,325</u>
	<u>\$ 5,010,000</u>		<u>\$ 729,825</u>	<u>\$ 5,739,825</u>

The Bonds maturing on and after October 1, 2010 are subject to redemption prior to maturity, at the option of the Authority, as a whole, or in part on October 1, 2009 or any date thereafter, as directed by the Authority.

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

### *Guaranteed Parking Revenue Bonds, Series 2005*

On November 15, 2005, the Authority issued the Guaranteed Parking Revenue Bonds, Series 2005, in the amount of \$12,265,000. The proceeds of the Bonds are being used to finance the 2005 capital project which includes the acquisition and construction of two parking garages and surface parking lot improvements and to pay for the costs of issuing and insuring 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, 2005 is as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
2006	\$ 235,000	3.50%	\$ 554,234	\$ 789,234
2007	220,000	3.50%	546,009	766,009
2008	230,000	3.15%	538,309	768,309
2009	235,000	4.50%	531,064	766,064
2010	245,000	4.50%	520,489	765,489
2011	260,000	3.50%	509,464	769,464
2012	265,000	4.00%	500,364	765,364
2013	275,000	4.00%	489,764	764,764
2014	290,000	4.00%	478,764	768,764
2015	300,000	4.00%	467,164	767,164
2016	310,000	4.00%	455,164	765,164
2017	325,000	4.125%	442,764	767,764
2018	340,000	4.25%	429,358	769,358
2019	350,000	4.25%	414,908	764,908
2020	365,000	4.375%	400,033	765,033

# ALLENTOWN PARKING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

<u>Year</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
2021	385,000	4.375%	384,064	769,064
2022	400,000	4.50%	367,220	767,220
2023	420,000	4.50%	349,220	769,220
2024	435,000	4.50%	330,320	765,320
2025	455,000	4.50%	310,745	765,745
2026	475,000	4.60%	290,270	765,270
2027	500,000	4.60%	268,420	768,420
2028	520,000	4.60%	245,420	765,420
2029	545,000	4.60%	221,500	766,500
2030	570,000	5.00%	194,250	764,250
2031	600,000	5.00%	165,750	765,750
2032	630,000	5.00%	135,750	765,750
2333	660,000	5.00%	104,250	764,250
2034	695,000	5.00%	71,250	766,250
2035	<u>730,000</u>	5.00%	<u>36,495</u>	<u>766,495</u>
	<u>\$12,265,000</u>		<u>\$10,752,776</u>	<u>\$23,017,776</u>

The Bonds maturing on or after November 15, 2016 are subject to redemption prior to maturity, at the option of the Authority, as a whole or in part on November 15, 2015 or any date thereafter, as directed by the Authority.

The Bonds stated to mature on November 15 of the years 2028 and 2035 (the "Term Bonds") are subject to mandatory redemption prior to maturity on November 15 of the years and in principal amounts as set forth in the following schedule:

### Bonds Maturing November 15, 2028

<u>Year</u>	<u>Amount</u>
2026	\$ 475,000
2027	500,000
2028	520,000

### Bonds Maturing November 15, 2035

<u>Year</u>	<u>Amount</u>
2029	\$ 545,000
2030	570,000
2031	600,000
2032	630,000
2033	660,000
2034	695,000
2035	730,000

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

### *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

# ALLENTOWN PARKING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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, 2005 and 2004, such amortization amounted to \$40,886 and \$33,444. 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, 2005 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Deferred Refunding Costs</u>
2006	\$ 1,265,000	\$ 834,657	\$ 2,099,657	\$ 40,886
2007	1,270,000	802,656	2,072,656	40,886
2008	1,310,000	768,156	2,078,156	40,886
2009	1,350,000	726,112	2,076,112	40,886
2010	1,165,000	685,624	1,850,624	40,886
2011	1,205,000	646,999	1,851,999	40,886
2012	1,245,000	607,999	1,852,999	40,131
2013	1,290,000	564,774	1,854,774	35,379
2014	620,000	517,929	1,137,929	27,937
2015	645,000	494,119	1,139,119	27,937
2016	665,000	469,009	1,134,009	24,722
2017	325,000	442,764	767,764	-
2018	340,000	429,358	769,358	-
2019	350,000	414,908	764,908	-
2020	365,000	400,033	765,033	-
2021	385,000	384,064	769,064	-
2022	400,000	367,220	767,220	-
2023	420,000	349,220	769,220	-
2024	435,000	330,320	765,320	-
2025	455,000	310,745	765,745	-
2026	475,000	290,270	765,270	-
2027	500,000	268,420	768,420	-
2028	520,000	245,420	765,420	-
2029	545,000	221,500	766,500	-
2030	570,000	194,250	764,250	-
2031	600,000	165,750	765,750	-
2032	630,000	135,750	765,750	-
2333	660,000	104,250	764,250	-
2034	695,000	71,250	766,250	-
2035	<u>730,000</u>	<u>36,500</u>	<u>766,490</u>	<u>-</u>
	<u>\$ 21,430,000</u>	<u>\$ 12,280,021</u>	<u>\$ 33,710,021</u>	<u>\$ 401,422</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, 2005 are as follows:

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

Year Ending December 31	
2006	<u>7,228</u>
	7,228
Less amounts representing interest	<u>149</u>
	<u>\$ 7,079</u>

The cost and accumulated depreciation of vehicles under capital lease is \$75,647 and \$40,196, respectively, as of December 31, 2005. The cost and accumulated depreciation of vehicles under capital lease was \$75,647 and \$25,067, respectively, as of December 31, 2004.

**Note 7. 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 include the lease of office equipment, as of December 31, 2005 are as follows:

Year Ending December 31	
2006	\$ 3,698
2007	3,698
2008	<u>370</u>
	<u>\$ 7,766</u>

Lease rental expense for these leases in addition to leases of various parking lots in the City of Allentown amounted to \$2,241 and \$2,297 for the years ended December 31, 2005 and 2004, respectively.

**Note 8. Leasing Activities**

The Authority leases office space to third parties under operating lease agreements. The rents are determined based on the square footage being rented and are subject to periodic increases. The agreements also include various renewal options after the initial term expires. Minimum future rental income from the operating leases as of December 31, 2005 is as follows:

Year Ending December 31	
2006	\$ 31,356
2007	31,356
2008	28,830
2009	16,200
2010	16,200
Thereafter	<u>307,800</u>
	<u>\$ 431,742</u>

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

**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, 2005 and 2004. 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.

**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, 2005 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, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Annual required contribution	\$ 181,715	\$ 181,280
Interest on net pension obligation	(2,196)	(1,016)
Adjustment to annual required contribution	<u>-</u>	<u>-</u>
Annual pension cost	179,519	180,264
Contributions made	<u>225,174</u>	<u>195,993</u>
(Increase) decrease in net pension obligation (asset)	(45,655)	(15,729)

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

	<u>2005</u>	<u>2004</u>
Net pension obligation (asset), beginning of year	<u>(29,276)</u>	<u>(13,547)</u>
Net pension obligation (asset), end of year	<u>\$ (74,931)</u>	<u>\$ (29,276)</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.
- f) The unfunded actuarial liability is amortized using the level dollar method over a period of 7.9 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</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
12/31/03	\$ 196,266	107%	\$ (13,547)
12/31/04	180,264	109%	(29,276)
12/31/05	179,519	125%	(74,931)

The Authority's pension expense amounted to \$205,407 and \$200,319 for the years ended December 31, 2005 and 2004, respectively.

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

**Note 10. Contributions**

The Authority had 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. Beginning in 2005, both the City and the Authority agreed to suspend this contribution for the years 2005, 2006 and 2007. The suspension was made to allow the Authority to accumulate additional funds to pay the new \$12 million debt service during the acquisition and construction period of two new parking structures. The net contribution made to the City of Allentown was \$0 and \$224,478 for the years ended December 31, 2005 and 2004, respectively.

**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.

The Authority makes no contributions to the Plan. Eleven employees contributed to the Plan during 2005 and 2004.

**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.

The Authority is a member of 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.

## **ALLENTOWN PARKING AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS**

#### **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%
01/01/05	1,225,808	1,943,228	717,420	63.08%	587,848	122.0%

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**ALLENTOWN PARKING AUTHORITY**

**SCHEDULE OF OPERATING REVENUES AND EXPENSES,  
EXCLUDING DEPRECIATION AND AMORTIZATION  
ACTUAL AND BUDGET**

**Year Ended December 31, 2005**

	<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	\$ -	\$ 724,508	\$ -
Parking fines	-	2,734,908	-
Parking permits	-	37,449	-
Total on-street parking	-	3,496,865	-
Garages and lots	377,578	-	83,702
Total operating revenues	377,578	3,496,865	83,702
<b>OPERATING EXPENSES</b>			
Wages and benefits	191,865	816,605	282
Services and charges:			
Utilities	15,945	-	5,631
Postage	-	-	-
Printing	-	-	-
Advertising	-	-	-
Training and professional development	-	-	-
Insurance	14,140	12,918	1,902
Repairs and maintenance	14,461	34,393	2,005
Equipment leasing	-	-	-
Professional fees	-	-	-
Snow removal	15,920	-	3,413
Real estate taxes	3,490	-	-
Bank and coin counting fees	-	5,986	-
Other	2,651	1,541	1,350
Total services and charges	66,607	54,838	14,301
Materials and supplies:			
Uniforms	534	3,909	-
Office and operating supplies	-	-	-
Vehicle expense	-	18,479	-
Total materials and supplies	534	22,388	-
Total operating expenses before depreciation and amortization	259,006	893,831	14,583
Operating income (loss) before depreciation and amortization	\$ 118,572	\$ 2,603,034	\$ 69,119

Actual						
Parking Garages						
Walnut and Ninth Streets	600 Linden Street	Bon Ton Garage	Administrative and General	Total	Budget	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ 724,508	\$ 650,000	\$ 74,508
-	-	-	-	2,734,908	2,305,000	429,908
-	-	-	-	37,449	35,000	2,449
-	-	-	-	3,496,865	2,990,000	506,865
337,544	204,278	291,450	-	1,294,552	1,191,000	103,552
337,544	204,278	291,450	-	4,791,417	4,181,000	610,417
232,164	68,505	-	609,896	1,919,317	2,008,500	89,183
18,573	12,846	45,622	29,662	128,279	115,800	(12,479)
-	-	-	25,142	25,142	24,000	(1,142)
-	-	-	28,920	28,920	25,000	(3,920)
-	-	-	1,436	1,436	6,000	4,564
-	-	-	9,636	9,636	18,000	8,364
11,545	6,813	13,313	7,177	67,808	74,600	6,792
11,716	7,981	13,849	42,987	127,392	101,350	(26,042)
-	-	-	2,986	2,986	-	(2,986)
-	-	-	48,410	48,410	49,000	590
-	-	-	-	19,333	12,400	(6,933)
-	6,512	5,218	-	15,220	13,000	(2,220)
-	-	-	7,042	13,028	14,000	972
-	15	214	29,205	34,976	29,800	(5,176)
41,834	34,167	78,216	232,603	522,566	482,950	(39,616)
383	-	-	-	4,826	38,300	33,474
1,851	1,083	-	(2,751)	183	16,400	16,217
-	-	-	-	18,479	11,000	(7,479)
2,234	1,083	-	(2,751)	23,488	65,700	42,212
276,232	103,755	78,216	839,748	2,465,371	2,557,150	91,779
\$ 61,312	\$ 100,523	\$ 213,234	\$ (839,748)	\$ 2,326,046	\$ 1,623,850	\$ 702,196

**ALLENTOWN PARKING AUTHORITY**

**SCHEDULE OF OPERATING REVENUES AND EXPENSES,  
EXCLUDING DEPRECIATION AND AMORTIZATION**

**ACTUAL AND BUDGET**

**Year Ended December 31, 2004**

	<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	\$ -	\$ 650,591	\$ -
Parking fines	-	2,307,093	-
Parking permits	-	38,798	-
Total on-street parking	-	2,996,482	-
Garages and lots	332,469	-	88,861
Total operating revenues	332,469	2,996,482	88,861
<b>OPERATING EXPENSES</b>			
Wages and benefits	221,828	811,997	850
Services and charges:			
Utilities	16,577	-	5,064
Postage	-	-	-
Printing	-	-	-
Advertising	-	-	-
Lot rental	-	-	-
Training and professional development	-	-	-
Insurance	16,549	6,736	2,206
Repairs and maintenance	16,020	28,366	5,798
Equipment leasing	-	-	-
Professional fees	-	-	-
Snow removal	7,742	-	1,483
Real estate taxes	3,111	-	-
Bank and coin counting fees	-	6,728	-
Other	749	4,794	384
Total services and charges	60,748	46,624	14,935
Materials and supplies:			
Uniforms	685	5,978	-
Office and operating supplies	-	349	-
Vehicle expense	-	11,599	-
Total materials and supplies	685	17,926	-
Total operating expenses before depreciation and amortization	283,261	876,547	15,785
Operating income (loss) before depreciation and amortization	\$ 49,208	\$ 2,119,935	\$ 73,076

Actual						
Parking Garages				Total	Budget	Variance Favorable (Unfavorable)
Walnut and Ninth Streets	600 Linden Street	Bon Ton Garage	Administrative and General			
\$ -	\$ -	\$ -	\$ -	\$ 650,591	\$ 650,000	\$ 591
-	-	-	-	2,307,093	2,135,000	172,093
-	-	-	-	38,798	35,000	3,798
-	-	-	-	2,996,482	2,820,000	176,482
272,917	191,201	280,101	-	1,165,549	1,149,000	16,549
272,917	191,201	280,101	-	4,162,031	3,969,000	193,031
211,489	63,252	1,204	602,378	1,912,998	1,862,310	(50,688)
17,362	12,871	45,792	29,047	126,713	125,200	(1,513)
-	-	-	23,897	23,897	23,000	(897)
-	-	-	21,403	21,403	23,000	1,597
-	-	-	2,059	2,059	6,000	3,941
-	-	-	-	-	3,500	3,500
-	-	-	7,620	7,620	18,000	10,380
12,052	9,377	14,791	11,143	72,854	77,600	4,746
8,628	8,267	16,234	29,488	112,801	101,000	(11,801)
-	-	-	4,068	4,068	-	(4,068)
-	-	-	49,837	49,837	50,000	163
-	-	-	-	9,225	17,800	8,575
-	5,845	-	-	8,956	12,000	3,044
-	-	-	11,927	18,655	13,000	(5,655)
-	126	-	9,246	15,299	34,300	19,001
38,042	36,486	76,817	199,735	473,387	504,400	31,013
518	90	-	-	7,271	11,200	3,929
1,686	881	-	11,533	14,449	16,400	1,951
-	-	-	-	11,599	6,500	(5,099)
2,204	971	-	11,533	33,319	34,100	781
251,735	100,709	78,021	813,646	2,419,704	2,400,810	(18,894)
\$ 21,182	\$ 90,492	\$ 202,080	\$ (813,646)	\$ 1,742,327	\$ 1,568,190	\$ 174,137

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***Allentown Economic  
Development Corporation***

***June 30, 2005 and 2004***

***Financial Statements and Auditors' Report***



**CONCANNON, MILLER & CO., P.C.**  
Certified Public Accountants & Business Consultants

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**JUNE 30, 2005 AND 2004**

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CONCANNON, MILLER & CO., P.C.  
Certified Public Accountants & Business Consultants

**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, 2005 and 2004, and the related statements of activities, changes in net assets, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2005 and 2004, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Concannon, Miller & Co., P.C.*

Allentown, PA  
September 14, 2005

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**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

	June 30,	
<b><u>ASSETS</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 353,590	\$ 437,987
Cash and cash equivalents - designated (Note 3)	2,570,807	3,066,923
Miscellaneous receivables and prepayments	439,541	219,026
Notes receivable, current maturities		
Revolving loan program receivables (Note 6)	127,037	122,249
Mortgage receivables (Note 7)	98,726	84,458
Total Current Assets	<u>3,589,701</u>	<u>3,930,643</u>
<b>PROPERTY, FURNITURE AND EQUIPMENT (Notes 2 and 4)</b>		
Continuing operations, at cost, net	5,814,677	5,642,665
Project development properties, at cost	6,791,874	8,632,708
Total Property, Furniture and Equipment	<u>12,606,551</u>	<u>14,275,373</u>
<b>OTHER ASSETS</b>		
Notes receivable, net of current maturities		
Revolving loan program receivables (Note 6)	729,176	600,454
Mortgage receivables (Note 7)	628,905	640,625
Deferred costs (Notes 2 and 5)	86,772	40,861
Investment - ADCO	10,000	10,000
Total Other Assets	<u>1,454,853</u>	<u>1,291,940</u>
Total Assets	<u>\$ 17,651,105</u>	<u>\$ 19,497,956</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 270,308	\$ 80,152
Tenant security and deposit fees	98,375	126,218
Deferred support, current portion	36,362	153,979
Notes and mortgages payable, current maturities (Note 9)	85,995	293,841
Total Current Liabilities	<u>491,040</u>	<u>654,190</u>
<b>LONG-TERM LIABILITIES</b>		
Notes and mortgages payable, net of current maturities (Note 9)	3,926,429	3,085,247
Deferred support - UDAG	200,000	200,000
Total Long-Term Liabilities	<u>4,126,429</u>	<u>3,285,247</u>
Total Liabilities	<u>4,617,469</u>	<u>3,939,437</u>
<b>COMMITMENT AND CONTINGENCIES</b> (Note 10)		
<b>NET ASSETS (Note 16)</b>		
Unrestricted net assets	12,109,439	14,655,716
Temporarily restricted net assets	5,372	11,086
Permanently restricted net assets	918,825	891,717
Total Net Assets	<u>13,033,636</u>	<u>15,558,519</u>
Total Liabilities and Net Assets	<u>\$ 17,651,105</u>	<u>\$ 19,497,956</u>

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

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENTS OF ACTIVITIES**

	Years Ended June 30,	
	2005	2004
<b>SUPPORT AND REVENUE</b>		
Support		
Funding from City of Allentown		
Operations - CDBG	\$ 181,014	\$ 179,438
Project funding	537,043	24,836
Loan and grant funding	464,897	75,103
Enterprise Zone	13,765	8,708
State and federal funding	132,007	0
Contributions and grants	61,971	87,750
	<u>1,390,697</u>	<u>375,835</u>
Revenue		
Fees and service charges	1,158	57,086
Interest	69,757	71,004
Management fee income	23,619	37,817
Miscellaneous income	1,784	2,212
Professional services	25,440	18,373
Rental income (Note 14)	914,700	910,525
	<u>1,036,458</u>	<u>1,097,017</u>
Total Support and Revenue	<u>2,427,155</u>	<u>1,472,852</u>
<b>EXPENSES</b>		
Administrative services and related costs	337,953	393,812
Advertising, promotion and marketing	10,225	2,085
City grant programs	226,281	165,103
City funding return to CDBG program	253,337	0
Contributions	0	77,053
Depreciation and amortization (Notes 2 and 4)	256,356	220,292
Dues and subscriptions	1,725	1,836
Insurance	72,555	83,845
Interest	475,822	231,934
Loan packaging	87	386
Office supplies and related expenses	17,717	25,524
Professional fees - funded studies and other	82,323	180,906
Program expenses	6,694	8,777
Real estate and other taxes	52,197	48,562
Rent	0	53,685
Repair, maintenance and miscellaneous	100,998	108,244
Telephone and utilities	162,612	158,913
Trade associations	1,290	1,665
Training and professional development	3,556	1,442
Travel and meetings	10,239	4,352
Total Expenses	<u>2,071,967</u>	<u>1,768,416</u>
<b>CHANGES IN NET ASSETS BEFORE LOSS ON ASSETS</b>	355,188	(295,564)
<b>LOSS ON SALE OF ASSETS (NET)</b>	(1,356,959)	0
<b>LOSS ON WRITEDOWN OF ASSETS</b>	<u>(1,523,112)</u>	<u>0</u>
<b>CHANGES IN NET ASSETS</b>	(2,524,883)	(295,564)
<b>NET ASSETS, JULY 1</b>	15,558,519	15,854,083
<b>NET ASSETS, JUNE 30</b>	<u>\$ 13,033,636</u>	<u>\$ 15,558,519</u>

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

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2005 WITH SUMMARIZED FINANCIAL INFORMATION FOR 2004**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2005</u>	<u>2004</u>
NET ASSETS, JULY 1	\$ 14,655,716	\$ 11,086	\$ 891,717	\$ 15,558,519	\$ 15,854,083
CHANGES IN NET ASSETS BEFORE RELEASE FROM RESTRICTIONS	(2,551,991)	0	27,108	(2,524,883)	(295,564)
RELEASE FROM RESTRICTIONS	<u>5,714</u>	<u>(5,714)</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET ASSETS, JUNE 30	<u>\$ 12,109,439</u>	<u>\$ 5,372</u>	<u>\$ 918,825</u>	<u>\$ 13,033,636</u>	<u>\$ 15,558,519</u>

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

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

	Years Ended June 30,	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (2,524,883)	\$ (295,564)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	256,356	220,292
Loss on sale of assets	1,356,959	0
Loss on writedown of assets	1,523,112	0
	<u>611,544</u>	<u>(75,272)</u>
Changes in operating assets and liabilities		
Decrease (Increase) in miscellaneous receivables and prepayments	(220,514)	(10,341)
Increase (Decrease) in accounts payable and accrued expenses	190,156	(260,427)
(Decrease) Increase in tenant security and deposit fees	(27,843)	11,130
(Decrease) Increase in deferred support	(117,617)	5,778
	<u>(175,818)</u>	<u>(253,860)</u>
Net Cash Provided by (Used in) Operating Activities	<u>435,726</u>	<u>(329,132)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the sale of fixed assets	283,439	0
Additions to property, furniture and equipment	(386,778)	(73,390)
Additions to project development properties	(1,322,678)	(133,641)
Loans and mortgages made	(396,723)	(106,770)
Collections on loans and mortgages	260,666	209,499
Net Cash Used in Investing Activities	<u>(1,562,074)</u>	<u>(104,302)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Mortgage proceeds	4,000,000	0
Repayments of notes and mortgages	(3,366,664)	(279,797)
Debt issuance costs	(87,501)	0
Net Cash Provided by (Used in) Financing Activities	<u>545,835</u>	<u>(279,797)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(580,513)</u>	<u>(713,231)</u>
<b>CASH AND CASH EQUIVALENTS, JULY 1</b>	<u>3,504,910</u>	<u>4,218,141</u>
<b>CASH AND CASH EQUIVALENTS, JUNE 30</b>	<u><u>\$ 2,924,397</u></u>	<u><u>\$ 3,504,910</u></u>

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

# **ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2005 AND 2004**

### **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**

#### **Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with United States ("U.S.") generally accepted accounting principles.

#### **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.

#### **Pledges**

The Corporation 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. Pledges applicable to current operations are recorded as support in the current period. Pledges related to future operations are recorded as deferred support.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2005 AND 2004**

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

**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 (10 years).

**Net Assets**

The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporary and permanent restrictions on net assets are described in Note 16.

**Taxes on Income**

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

**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.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Reclassifications**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (Continued)****JUNE 30, 2005 AND 2004****NOTE 3 Cash and Cash Equivalents**

The Corporation maintains cash balances at financial institutions located in eastern Pennsylvania. Accounts at each 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 \$1,543,555 and \$2,644,325 at June 30, 2005 and 2004, respectively. At June 30, 2005 and 2004, the Corporation's uninsured and uncollateralized cash balances totaled \$932,289 and \$667,353, respectively.

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

<b><u>Designated Project/Program</u></b>	<b><u>June 30,</u></b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>
Bridgeworks Incubator	\$ 76,289	\$ 64,086
Urban Development Action Grant	28,272	128,186
Revolving Loan and Grant Programs	1,027,294	883,173
Project Development Properties		
Lehigh Landing	109,680	76,832
Portland Place	262,718	464,114
Downtown Projects	26,301	52,507
Advance for ULI Study	(34,272)	(69,200)
Reserve for development projects	<u>1,074,525</u>	<u>1,467,225</u>
	<b><u>\$2,570,807</u></b>	<b><u>\$3,066,923</u></b>

**NOTE 4 Property, Furniture and Equipment**

<b><u>Continuing Operations</u></b>	<b><u>Estimated Useful Life (Years)</u></b>	<b><u>June 30,</u></b>	
		<b><u>2005</u></b>	<b><u>2004</u></b>
Office equipment and furniture	5-10	\$ 85,139	\$ 93,950
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	<u>2,546,618</u>	<u>2,162,358</u>
		8,379,362	8,003,913
Less accumulated depreciation		<u>2,564,685</u>	<u>2,361,248</u>
		<b><u>\$ 5,814,677</u></b>	<b><u>\$ 5,642,665</u></b>

Total depreciation expense for June 30, 2005 and 2004 was \$208,296 and \$209,752, respectively.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (Continued)****JUNE 30, 2005 AND 2004****NOTE 4      Property, Furniture and Equipment (Continued)**

<b>Project Development Properties</b>	<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>
Portland Hall Street Garage	\$ 189,441	\$ 189,441
Seventh Street properties	0	694,883
Riverfront properties	5,413,189	6,699,866
Arts Center (Schoen's & Musselman buildings)	919,016	229,696
Hamilton Street properties	269,258	818,822
Parking lot properties	970	0
	<u>\$ 6,791,874</u>	<u>\$ 8,632,708</u>

**NOTE 5      Deferred Costs**

	<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>
Loan fees	\$ 87,501	\$ 88,750
Less accumulated amortization	729	47,889
	<u>\$ 86,772</u>	<u>\$ 40,861</u>

**NOTE 6      Revolving Loan Program Receivables**

Revolving loan program receivables include \$159,744 (\$167,598 at June 30, 2004) on installment direct loans requiring monthly payments of \$1,417 including interest from 5% to 6% with final payments due November 2014 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 \$542,114 (\$476,167 at June 30, 2004) from the Neighborhood Business Revitalization Program of City of Allentown ("NBR") and \$65,688 (\$78,938 at June 30, 2004) from a Downtown Façade Program requiring monthly payments in the aggregate of \$10,474 including interest from 0% to 6% with final payments due August 2005 through December 2014. These notes are collateralized primarily by second or third mortgages on real estate and liens on machinery, fixtures, appliances, equipment and leasehold improvements.

Begun this year are the Business Revitalization Loan Program and the Upper Floors for Housing Loan Program with receivables of \$18,667 and \$70,000, respectively. These loan programs are for the purpose of upgrading commercial buildings within a targeted area in the City of Allentown.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (Continued)****JUNE 30, 2005 AND 2004****NOTE 6      Revolving Loan Program Receivables (Continued)**

Future maturities of revolving loan program receivables at June 30, 2005 are as follows:

2006	\$ 127,037
2007	116,837
2008	111,414
2009	101,212
2010	94,035
Thereafter	<u>305,678</u>
	<u>\$ 856,213</u>

**NOTE 7      Mortgage Receivables**

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</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)	\$ 141,704	\$ 165,914
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)	107,002	133,932
Secondary loans issued to four area companies in original amount of \$363,000; payable in monthly installments of \$4,787 including principal and interest at 2.78% to 3% with final payments due March 2010 through August 2011	278,925	225,237
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>
	727,631	725,083
Current maturities	<u>98,726</u>	<u>84,458</u>
	<u>\$ 628,905</u>	<u>\$ 640,625</u>

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (Continued)****JUNE 30, 2005 AND 2004****NOTE 7      Mortgage Receivables (Continued)**

Future maturities of mortgage receivables as of June 30, 2005 are as follows:

	<b>UDAG</b>		
	<b>Corporate</b>	<b>Enterprise</b>	
	<b>Plaza</b>	<b>Zone</b>	<b>Total</b>
2006	\$	\$ 98,726	\$ 98,726
2007		104,266	104,266
2008		107,815	107,815
2009		111,486	111,486
2010		78,689	78,689
Thereafter	<u>200,000</u>	<u>26,649</u>	<u>226,649</u>
	<u>\$ 200,000</u>	<u>\$ 527,631</u>	<u>\$ 727,631</u>

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.

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. Four area companies have outstanding secondary loans from this fund at June 30, 2005.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2005 AND 2004**

**NOTE 8      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 a 10 year term which ended June 30, 2005.

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 was paid in full in May 2005.

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 at 5% over a five year period commencing upon rental of the building. The loan balance at June 30, 2005 is \$100,000.

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

**NOTE 9      Notes and Mortgages Payable**

	<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>
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; mortgage was repaid in May 2005	\$ 0	\$ 2,257,340
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; mortgage was repaid in May 2005	0	892,609

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (Continued)****JUNE 30, 2005 AND 2004****NOTE 9 Notes and Mortgages Payable (Continued)**

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
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; mortgage was repaid in May 2005	\$ 0	\$ 191,707
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	12,424	37,432
Mortgage payable to Merrill Lynch Mortgage Trust (originated with Countrywide Commercial Real Estate Finance, Inc.); secured by land and buildings of Bridgeworks Industrial Center; payable for a ten year term with fifteen year amortization in monthly installments of \$25,237 including payment of principal and interest at 5.78% fixed, ballooning in June 2015; additional monthly payment of \$14,122 is required to fund escrow accounts subject to specified withdrawal conditions; corporation is required to comply with certain continuing loan provisions	4,000,000	0
	4,012,424	3,379,088
Current maturities	85,995	293,841
	<u>\$ 3,926,429</u>	<u>\$ 3,085,247</u>

The annual requirements to pay principal and interest on indebtedness outstanding at June 30, 2005 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 85,995	\$ 229,271	\$ 315,266
2007	77,937	224,904	302,841
2008	82,563	220,278	302,841
2009	87,464	215,378	302,842
2010	92,656	210,186	302,842
Thereafter	3,585,809	961,610	4,547,419
	<u>\$4,012,424</u>	<u>\$2,061,627</u>	<u>\$ 6,074,051</u>

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2005 AND 2004**

**NOTE 10      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.

In November 2004, the property was sold to a private developer.

**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 \$3,062,672 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, 2005 AND 2004**

**NOTE 10      Commitments and Contingencies (Continued)**

**Other Downtown Projects**

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 January 2004, an additional property on S. 9<sup>th</sup> Street was purchased for the project by ACIDA. Five of these properties are under agreement of sale with a private developer at June 30, 2005.

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 under a site control agreement with a developer at June 30, 2005.

In August 2004, AEDC purchased a property at 601 W. Hamilton Street (Musselman Building) utilizing a \$400,000 pass-through grant from the City to serve as an arts development center. The building was subsequently leased to a nonprofit, arts-related corporation for a term of 29 years with first option to purchase; tenant pays a nominal monthly rent plus all operating costs (including real estate taxes) associated with the building.

In December 2004, property transfers to accommodate several downtown development projects included transfer by ACIDA to the Allentown Parking Authority (APA) of the Farr lot on N. 8th Street in exchange for the Jackson Street Parking Lot and the former Hess's Employee Parking Deck from APA to ACIDA. In addition, a parking lot at 11-15 S. 9th Street was purchased by ACIDA from the APA. All properties were leased to the Corporation, and all lease agreements have been accounted for as capital acquisitions.

**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.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2005 AND 2004**

**NOTE 10      Commitments and Contingencies (Continued)**

**ACIDA (Continued)**

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.

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, 2005, total revenues from operations are \$5,777 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 11      Equity Fund Loan Programs**

The City of Allentown provided the Corporation with "revolving" equity funds of \$1,102,500 for the purpose of financing SBA 502, 503, 504 loans (\$160,000), Neighborhood Business Revitalization loans (\$505,000), Downtown Facade loans (\$180,000), Building Rehab Loans (\$20,000), and Upper Floors for Housing Loans (\$237,500).

The City is now requiring the return of funds provided per CDBG Programs for financing of SBA-related loans, along with all interest income generated. A total of \$253,337 was returned during fiscal year ended June 30, 2005. The remaining liability for loans amounts to approximately \$160,000 plus interest collected. The funds are to be paid back annually as payments are collected from the loan recipients by AEDC.

**NOTE 12      Supplemental Disclosures of Cash Flow Information**

	<b>Years Ended</b>	
	<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>
Cash Paid during the Year for Interest	<u>\$ 470,599</u>	<u>\$ 226,992</u>

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (Continued)****JUNE 30, 2005 AND 2004****NOTE 13 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, 2005 and 2004, the support from the Commonwealth and the City aggregated \$1,328,726 and \$288,085, respectively.

**NOTE 14 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 June 2006 to June 2009 and from December 2005 to November 2008, respectively. Industrial Center rental income is derived from four tenants. A building purchased for development as an arts center is leased to a not-for-profit corporation for a term of 29 years with first option to purchase. Future minimum rentals under leases at June 30, 2005, not including renewal actions, are as follows:

	<u>Industrial Center</u>	<u>Incubator</u>	<u>Arts Center</u>	<u>Total</u>
2006	\$ 688,140	\$ 196,170	\$ 8,408	\$ 892,718
2007	246,763	119,309	8,408	374,480
2008	232,443	39,945	8,408	280,796
2009	157,651	6,500	8,408	172,559
2010			8,408	8,408
	<u>\$1,324,997</u>	<u>\$ 361,924</u>	<u>\$ 42,040</u>	<u>\$1,728,961</u>

**NOTE 15 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, 2005 and 2004, the Company made contributions aggregating \$11,396 and \$11,140, respectively.

**NOTE 16 Loss on Sale and Write-down of Assets**

During the year ended June 30, 2005, AEDC sold a Seventh Street property to a private developer for a \$1. This resulted in a loss on sale of \$694,883. As shown in Note 18, a loss of \$695,227 was recorded for the sale of Hamilton Street properties. Also, capitalized design costs of \$1,523,112 for the Lehigh Landing project were written off.

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (Continued)****JUNE 30, 2005 AND 2004****NOTE 17     Restrictions on Net Assets**

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

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
Lehigh Landing	\$ 5,372	\$ 5,372
Downtown Partnership	0	5,714
	<u>\$ 5,372</u>	<u>\$ 11,086</u>

Also, net assets include City of Allentown grants which are permanently restricted to operating the Enterprise Zone Revolving Loan program. Interest earned from the loan program and cash held increased the permanently restricted net asset balance for use for future loans. The total interest earned during year ended June 30, 2004 and 2003 was \$27,108 and \$24,731, respectively.

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
Enterprise Zone Loans (see Note 8)	\$ 527,631	\$ 525,083
AEDC Interfund Loan (see Note 9)	0	176,651
Cash Loan Pool and Accounts Receivable	391,194	189,983
	<u>\$ 918,825</u>	<u>\$ 891,717</u>

**NOTE 18     Subsequent Events**

On July 26, 2005, the Corporation and ACIDA sold five properties located in the 800 block of Hamilton Street to a private developer for \$1. The net book value at the time of sale was \$695,227. This transaction was recorded in the year ended June 30, 2005.



CONCANNON, MILLER & CO., P.C.  
Certified Public Accountants & Business Consultants

**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, 2005 and 2004 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, Miller & Co., P.C.*

Allentown, PA  
September 14, 2005

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**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**  
**COMBINING SCHEDULES OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**GENERAL OPERATIONS FUNDING**  
**YEARS ENDED JUNE 30, 2005 AND 2004**

	2005 Combined Total	General Division	Finance Division	Bridgeworks Industrial Center	2004 Combined Total	General Division	Finance Division	Bridgeworks Industrial Center
<b>SUPPORT AND REVENUE</b>								
Support								
Funding from City								
Operations - CDBG	\$ 160,000	\$ 160,000			\$ 159,444	\$ 159,444		
Contributions and grants	15,000	15,000			6,950	6,950		
Membership dues	-				-	-		
Revenue	<u>175,000</u>	<u>175,000</u>	<u>-</u>	<u>0</u>	<u>166,394</u>	<u>166,394</u>	<u>-</u>	<u>0</u>
Fees and service charges	1,068		1,068		57,026		57,026	
Interest	38,595	37,957		638	23,872	23,746		126
Management fee income	23,619	8,619	15,000		37,817	24,317	13,500	
Miscellaneous	10	10			-			
Professional services	25,440	11,340	14,100		18,273		18,273	
Rental income	<u>706,741</u>			<u>706,741</u>	<u>667,263</u>			<u>667,263</u>
	<u>795,473</u>	<u>57,926</u>	<u>30,168</u>	<u>707,379</u>	<u>804,251</u>	<u>48,063</u>	<u>88,799</u>	<u>667,389</u>
Total Support and Revenue	<u>970,473</u>	<u>232,926</u>	<u>30,168</u>	<u>707,379</u>	<u>970,645</u>	<u>214,457</u>	<u>88,799</u>	<u>667,389</u>
<b>EXPENSES</b>								
Administrative services and related costs	253,960	191,026	21,310	41,624	252,184	157,329	40,825	54,030
Advertising, promotion and marketing	5,342	5,342			195	104	91	
Depreciation and amortization	201,913	3,146		198,767	166,139	4,891		161,248
Dues and subscriptions	1,536	1,536			1,647	1,486	161	
Insurance	38,823	19,961		18,862	43,947	22,269		21,678
Interest	<u>472,796</u>			<u>472,796</u>	<u>232,650</u>			<u>232,650</u>
Loan packaging	87		87		386		386	
Office supplies and related expenses	11,668	11,234		434	20,219	18,987	1,221	11
Professional fees	59,349	26,388		32,961	52,403	34,352	958	17,093
Program expense	5,777		5,777		4,402		4,402	
Real estate and other taxes	51,732			51,732	48,544			48,544
Rent	-				50,685	44,294	6,391	
Repair, maintenance, miscellaneous	33,730			33,730	41,999	590		41,409
Telephone and utilities	22,991	7,326		15,665	23,675	7,118	117	16,440
Trade Associations	1,065	1,065			1,440	1,065	375	
Training and professional development	1,989	1,989			545	545		
Travel and meetings	<u>9,747</u>	<u>9,747</u>			<u>4,246</u>	<u>4,060</u>	<u>186</u>	
Total Expenses	<u>1,172,505</u>	<u>278,760</u>	<u>27,174</u>	<u>866,571</u>	<u>945,306</u>	<u>297,090</u>	<u>55,113</u>	<u>593,103</u>
	(202,032)	<u>\$ (45,834)</u>	<u>\$ 2,994</u>	<u>\$ (159,192)</u>	25,339	<u>\$ (82,633)</u>	<u>\$ 33,686</u>	<u>\$ 74,286</u>
<b>CHANGE IN NET ASSETS</b>								
NET ASSETS, JULY 1	2,337,742				2,312,403			
NET ASSETS, JUNE 30	<u>\$ 2,135,710</u>				<u>\$ 2,337,742</u>			

**ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION**  
**COMBINING SCHEDULES OF ACTIVITIES AND NET ASSETS**  
**PROJECT FUNDING**  
**YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006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