

**CITY OF ALLENTOWN, PENNSYLVANIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006**



Ed Pawlowski

Mayor

David M. Howells, Sr.
Julio A. Guridy
David K. Bausch
Michael D'Amore
Louis J. Hershman
Tony Phillips
Martin Velazquez, III

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

Frank J. Concannon

City Controller

Hank Perkin , Esq.

City Solicitor

Lawrence F. Hilliard
Beth A. Mohylsky

Director of Finance
Manager of Treasury and Accounting Operations

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 of 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. Section 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 for 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 as 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 areas relative to the state and northeast as a whole.

TRANSPORTATION

Interstate 78, U.S. Routes 22, 222 and 309 and several state highways radiate for 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 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 education facilities including two colleges, an art museum, two theatre companies, two symphony orchestras, a Municipal Opera Company, the Allentown Band, and a 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, 2006**

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June 29, 2007

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, 2006 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 2006.

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 at the fund level.

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 2006 City Administration was the revitalization of the City of Allentown: To reestablish Allentown as a safe city by implementing strategies to effectively and efficiently utilize our police force and take control over crime. Allentown's Police Department was granted state certification in early 2005. The Fire department provides leadership

over Emergency Management training and establishes Allentown as a leader in emergency certified employees and management practices.

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, particularly the downtown area, with more prospective development in the planning stages.

The City's 2006 financial condition improved, as new revenue sources were authorized and cost control initiatives were successfully undertaken. Beginning in late 2005, the incoming City Administration presented a revised 2006 budget, reflecting substantial cost reductions and revenue initiatives to address the previous annual operating deficits situation.

During 2006, the new City Administration undertook cost containment measures and revenue generating efforts to achieve positive ongoing finances. The City also, implemented a lease/sublease transaction (in effect a loan) to eliminate the accumulated negative fund balance. Together, financial initiatives have led to a positive end of year general fund balance for the first time in several years.

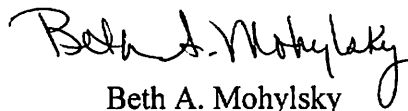
Acknowledgments: The timely preparation of the comprehensive annual financial report was made possible by the dedicated service of the entire staff of the Department of Finance. We would especially like to express our appreciation to the following staff members who assisted and contributed so significantly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

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, 2005

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.



A handwritten signature in black ink, appearing to read "Roma Ploun".

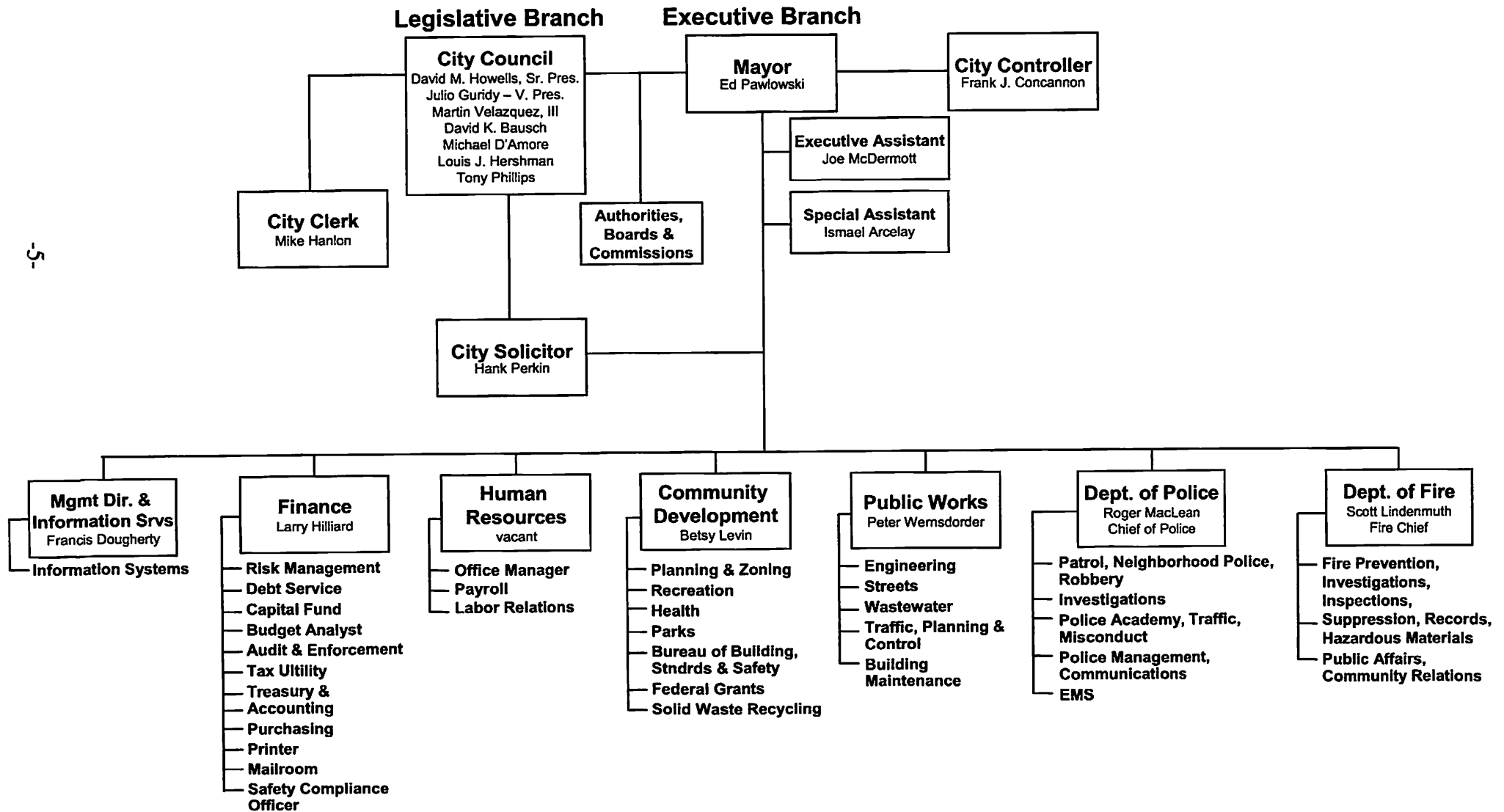
President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

City of Allentown

The Voters of Allentown



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INDEPENDENT AUDITORS' REPORT

To 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 and each major fund of the City of Allentown, Pennsylvania, as of and for the year ended December 31, 2006, 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, 2006 and December 31, 2006, respectively, which represent 99 percent of the assets of the discretely presented component units column and 97 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 and each major fund of the City of Allentown, Pennsylvania, as of December 31, 2006, 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 27, 2007 on our consideration of the City's internal control over financial reporting and 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 required supplementary information, such as Management's Discussion and Analysis ("MD&A"), budgetary comparison information and pension information 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 fund financial statements, and 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 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

Wyomissing, Pennsylvania
June 27, 2007

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

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, 2006. 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, 2006. 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 2006, the City's total net assets increased by \$14,187,683. Net assets of governmental activities increased \$10,114,859 and net assets of business-type activities increased \$4,072,824.

Property tax rates remained at 17.52 mills in 2006.

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.

- *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.

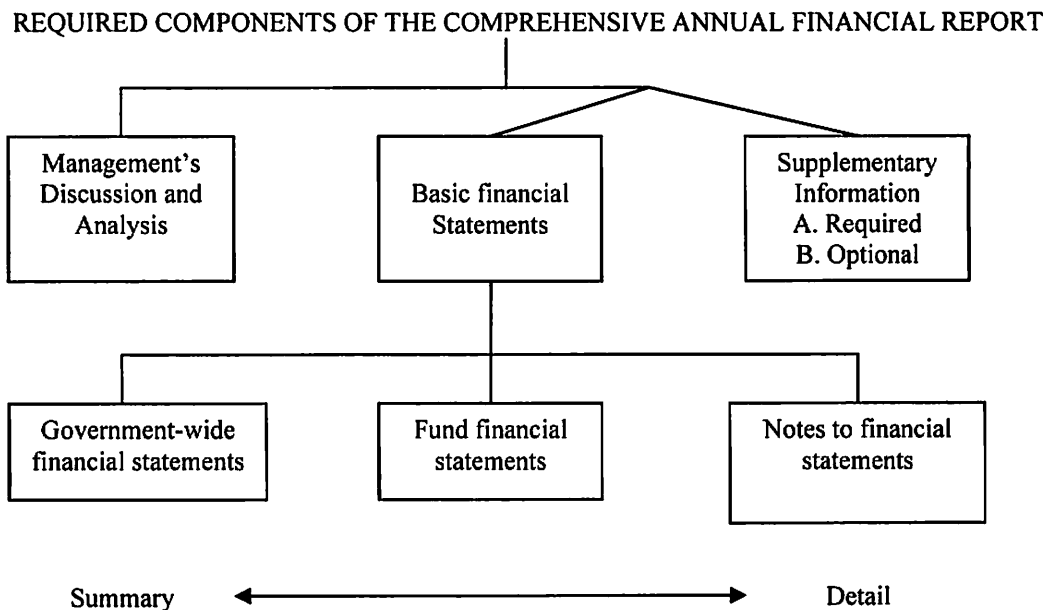


Table A-2 summarizes the major features of the City's financial statements, including the area of the City's activities they cover and the types of information they contain.

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

	Government-wide statements	Fund financial statements		
		Governmental	Proprietary	Fiduciary
Scope	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
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement revenues, expenditures and changes in fund balance 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	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
Type of asset and liability information	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
Type of inflow and outflow information	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

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

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 seven governmental funds that the City maintains (General, Pennsylvania Motor, Community Development Block Grant, Trexler Fund, Capital Projects, E-911 and Debt Service) are reported using the modified accrual accounting basis, and a current financial resources

measurement focus. 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 Firemen's 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 \$232.8 million at December 31, 2006. Of this amount, \$178.1 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 2006 financial statements.

City of Allentown, Pennsylvania
Management Discussion and Analysis

Table A-3: Condensed statement of net assets

	Governmental Activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other Assets	\$ 25,169,085	\$ 7,838,753	\$ 17,871,534	\$ 17,291,856	\$ 43,040,619	\$ 25,130,609
Capital assets, net	81,265,940	80,286,995	96,890,816	99,378,086	178,156,756	179,665,081
Other non-current Assets	9,542,570	9,008,575	2,148,054	2,426,389	11,690,624	11,434,964
Total assets	\$115,977,595	\$97,134,323	\$116,910,404	\$119,096,331	\$232,887,999	\$216,230,654
Current and other Liabilities	\$ 14,466,181	\$ 11,987,404	\$ 6,890,128	\$ 8,815,206	\$ 21,356,309	\$ 20,802,610
Long-term liabilities	93,020,267	86,770,631	35,887,004	40,220,677	128,907,271	126,991,308
Total liabilities	\$107,486,448	\$98,758,035	\$ 42,777,132	\$ 49,035,883	\$150,263,580	\$147,793,918
Net assets:						
Invested in capital assets, net of debt	\$ 20,563,347	\$ 26,835,473	\$ 57,148,473	\$ 53,403,909	\$ 77,711,820	\$ 80,239,382
Restricted net assets	9,594,133	8,910,203			9,594,133	8,910,203
Unrestricted net (deficit) assets	(21,666,333)	(37,369,388)	16,984,799	16,656,539	(4,681,534)	(20,712,849)
Total net (deficit) assets	\$ 8,491,147	\$ (1,623,712)	\$ 74,133,272	\$ 70,060,448	\$82,624,419	\$ 68,436,736

During 2006 net assets increased \$14.1 million or 20.6% to \$82.6 million. Of this amount, \$77.7 million represents the net balance of long-term capital assets and long-term debt, while \$9.5 million is restricted for various purposes.

City of Allentown, Pennsylvania
Management Discussion and Analysis

Table A-4: Changes in net assets

The following statement of activities represents changes in net assets for the year ended December 31, 2006. 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	
	2006	2005	2006	2005	2006	2005
Program revenues:						
Charges for services	\$ 15,161,944	\$ 11,191,479	\$ 40,642,581	\$ 41,267,037	\$ 55,804,525	\$ 52,458,516
Operating grants and contributions	12,512,597	11,592,544	808,377	1,025,750	13,320,974	12,618,294
Capital grants	2,232,405	2,845,673		152,000	2,232,405	2,997,673
General revenues:						
Taxes	48,512,216	46,918,139			48,512,216	46,918,139
Investment earnings	973,003	596,402	479,682	111,315	1,452,685	707,717
Unrestricted grants	6,146,246	6,065,052			6,146,246	6,065,052
Total revenues	85,538,411	79,209,289	41,930,640	42,556,102	127,469,051	121,765,391
Expenses:						
General government	11,591,907	8,363,679			11,591,907	8,363,679
Public safety	35,746,269	37,329,606			35,746,269	37,329,606
Community development	8,687,031	8,240,887			8,687,031	8,240,887
Public works	11,363,182	11,113,362			11,363,182	11,113,362
Health and sanitation	4,450,785	3,375,154			4,450,785	3,375,154
Parks and recreation	3,392,513	3,071,350			3,392,513	3,071,350
Other	1,141,913	339,076			1,141,913	339,076
Interest on long-term debt	3,996,208	3,940,612			3,996,208	3,940,612
Water fund			10,268,694	10,726,077	10,268,694	10,726,077
Sewer fund			12,376,807	11,898,997	12,376,807	11,898,997
Municipal golf course			735,697	851,582	735,697	851,582
Solid waste fund			9,530,362	9,417,855	9,530,362	9,417,855
Total expenses	80,369,808	75,773,726	32,911,560	32,894,511	113,281,368	108,668,237
Change in net assets Before transfers	5,168,603	3,435,563	9,019,080	9,661,591	14,187,683	13,097,154
Transfers	4,946,256	4,671,851	(4,946,256)	(4,671,851)		
Change in net assets	10,114,859	8,107,414	4,072,824	4,989,740	14,187,683	13,097,154
Net assets beginning	(1,623,712)	(9,731,126)	70,060,448	65,070,708	68,436,736	55,339,582
Net assets ending	\$ 8,491,147	\$ (1,623,712)	\$ 74,133,272	\$ 70,060,448	\$ 82,624,419	\$ 68,436,736

Total government-wide revenues of \$127.4 million came primarily from charges for services of \$55.8 million, representing 44 percent of the total. Property taxes at \$48.5 million made up the second largest source at 38 percent, followed by operating and capital grants, and contributions of \$15.5 million, or 13 percent, and other revenue sources made up the remaining 5 percent.

City of Allentown, Pennsylvania
Management Discussion and Analysis

Total expenses for all programs in 2006 were \$113.2 million. The expenses cover a range of services, with the largest being public safety at \$35.7 million or 31.6 percent. The second largest program area was the sewer fund at \$12.3 million or 11 percent, followed by general government at \$11.5 million or 10.3 percent, the public works at \$11.3 million or 10.1 percent, water fund at \$10.2 million or 9.1 percent, solid waste and recycling at 9.5 million or 8.5 percent, community development at \$8.6 million or 7.7 percent, health and sanitation at \$4.4 million or 4 percent, parks at \$3.3 million or 3 percent, and the golf course at \$735 thousand or 0.7 percent. Interest on outstanding debt came to \$3.9 million or 3.6 percent, and other services made up the remaining 0.4 percent.

In 2006, the City implemented the Emergency Municipal Service Tax (EMST) which contributed to a \$684,000 increase in program revenues in the Governmental Activities. A \$400,000 increase in collection of the Business Privilege Tax is attributed to increased business activity within the City.

The City's purchase of street light's, has had a positive impact, contributing to a significant savings in electricity.

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 2006, real estate and Act 511 taxes brought in \$48.5 million. Of the \$7.5 million in other general revenues, \$3.6 million were general fund service charges. Table A-5 depicts the net program expenses for the years ended December 31 2006 and 2005.

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

	Total cost of services		Net cost of services	
	2006	2005	2006	2005
Program:				
General government	\$ 11,591,907	\$ 8,363,679	\$10,381,743	\$ 7,168,348
Public safety	35,746,269	37,329,606	29,020,244	31,693,524
Community development	8,687,031	8,240,887	1,369,636	1,997,124
Public works	11,363,182	11,113,362	6,480,830	6,861,754
Health and sanitation	4,450,785	3,375,154	1,832,152	402,099
Parks and recreation	3,392,513	3,071,350	1,427,591	1,163,719
Other	1,141,913	339,076	(4,045,542)	(3,083,150)
Interest on long-term debt	3,996,208	3,940,612	3,996,208	3,940,612
Water fund	10,268,694	10,726,077	(4,418,163)	(3,717,953)
Sewer fund	12,376,807	11,898,997	(3,786,567)	(5,201,655)
Municipal golf course	735,697	851,582	(333,092)	(99,921)
Solid waste fund	9,530,362	9,417,855	(1,576)	(530,747)
Total expenses	\$113,281,368	\$108,668,237	\$ 41,923,464	\$ 40,593,754

The City relied on real estate tax, Act 511 taxes and other general revenues to fund 49.5% of its governmental and business-type activities in 2006.

Property taxes and other general revenues covered 69.2 percent of general government spending with the remainder coming from grants and fees for specific services. Nearly 81.2 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 15.8 percent of community development costs, with the remainder coming from fees, charges for service, and \$5.4 million from Community Development Block Grant (CDBG) funding.

Public works spending was partially funded through Commonwealth fuel tax revenues, with 57.1 percent coming from local property taxes and other general revenues. Health and sanitation received all but 41.2 percent of its revenue from program revenues, 93.1 percent of which was in the form of grants. Property taxes and other general revenues covered 42.1 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 92.6 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, 2006, net of accumulated depreciation, was \$178.1 million. Capital assets consist primarily of land, buildings, equipment, and infrastructure. Table A-6 is a summary of capital assets at December 31, 2006 and 2005.

Table A-6: Capital assets at December 31, 2006 and 2005

	Governmental Activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Land and land improvements	\$ 9,115,376	\$ 9,119,896	\$ 3,759,048	\$ 3,759,048	\$ 12,874,424	\$ 12,878,944
Buildings and improvements	28,225,539	24,877,998	39,696,022	40,869,253	67,921,561	65,747,251
Vehicles, machinery and equipment	6,219,512	7,407,452	14,694,115	15,696,685	20,913,627	23,104,137
Distribution and collection systems			38,741,631	39,053,100	38,741,631	39,053,100
Infrastructure	37,705,513	38,881,649			37,705,513	38,881,649
Total	\$ 81,265,940	\$ 80,286,995	\$ 96,890,816	\$99,378,086	\$178,156,756	\$179,665,081

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, 2006, the City had \$135.1 million of debt outstanding, including bonds, notes, and capital leases. This was an increase of \$359 thousand from the previous year. Table A-7 provides a summary of outstanding debt.

Table A-7: Summary of outstanding debt

	Governmental Activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Capital lease	\$ 1,024,181	\$ 1,272,836	\$ 2,172,144	\$ 2,689,177	\$ 3,196,325	\$ 3,962,013
Bonds and notes	59,678,416	52,178,685	37,570,200	43,285,000	97,248,616	95,463,685
Pension obligation bonds	34,675,000	35,335,000			34,675,000	35,335,000
Total	\$95,377,597	\$ 88,786,521	\$39,742,344	\$45,974,177	\$135,119,941	\$134,760,698

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, 2006 was approximately \$177.7 million, and the total debt outstanding was \$59.6 million, which is below the legal debt limit. The City's net non-electoral and lease rental debt limit at December 31, 2006 was approximately \$248.8 million and the total debt outstanding was \$37.6 million. For computation purposes, these amounts have been reduced by \$34.6 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. Standard and Poor's reaffirmed their current rating in December 2006 and noted positive actions have taken place at the City of Allentown.

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.

City of Allentown, Pennsylvania
Management Discussion and Analysis

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.

Governmental fund revenues

Governmental fund revenues by source for the years ended December 31, 2006 and December 31, 2005 were as follows. Table A-8 also presents changes from 2005 to 2006.

Table A-8: Revenues by source, governmental funds

	2006	2005	Changes from 2005 to 2006	Percent change
Revenues:				
Taxes	\$47,342,430	\$ 45,635,035	\$1,707,395	3.8
Licenses and permits	3,248,191	3,062,847	185,344	6.1
Charges for services	4,612,567	4,897,309	(284,742)	(5.9)
Fines and forfeits	578,363	555,898	22,465	4.1
Investment earnings	961,195	497,787	463,408	93.1
Intergovernmental revenues	19,846,232	18,944,800	901,432	4.8
Other	4,131,305	2,091,724	2,039,581	97.5
Total revenues	\$80,720,283	\$ 75,685,400	\$5,034,883	6.7

Governmental fund revenues totaled \$80.7 million for the year ended December 31, 2006. This is an increase of \$5.0 million from 2005, primarily due to increases in taxes and intergovernmental revenue.

Governmental fund expenditures

Governmental fund expenditures by function for the years ended December 31, 2006 and December 31, 2005 were as follows. Table A-9 also presents changes from 2005 to 2006.

Table A-9: Expenditures by function, governmental funds

	2006	2005	Changes from 2005 to 2006	Percent change
Expenses:				
General government	\$ 11,112,672	\$ 8,350,112	\$ 2,762,560	33.1
Public safety	34,632,057	36,144,138	(1,512,081)	(4.2)
Community development	8,614,385	8,159,802	454,583	5.6
Public works	9,267,279	8,952,519	314,760	3.5
Health and sanitation	4,402,484	3,322,865	1,079,619	32.5
Parks and recreation	2,734,768	2,323,552	411,216	17.7
Debt service:				
Principal	5,134,432	4,630,000	504,432	10.9
Interest	3,894,144	3,971,511	(77,367)	(1.9)
Capital outlay	7,245,177	6,765,457	479,720	7.1
Payment of bond/loan issue cost	251,525	0	251,525	100.0
Total expenses	\$87,288,923	\$ 82,619,956	\$ 4,668,967	5.7

City of Allentown, Pennsylvania
Management Discussion and Analysis

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the capital projects fund, the CDBG (community development block grant) fund, the Trexler fund, the debt service fund, the 911 Fund and the Pennsylvania motor fund, all of which are considered to be major funds.

Governmental fund expenditures totaled \$87.2 million for the year ended December 31, 2006, an increase of 5.7 percent from 2005.

The \$2.7 million increase in general government reflects a continuing emphasis on community policing and the necessity to respond to demands for service.

Governmental fund balances

Table A-10 reflects ending balances for governmental funds and net assets for proprietary funds at December 31, 2006 and 2005.

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

	2006		2005	
	Governmental funds	Proprietary funds	Governmental funds	Proprietary funds
General	\$ 9,128,441		\$ (2,711,620)	
Pennsylvania Motor Fund	651,888		597,681	
Community Development Block Grant	8,622,679		8,000,683	
Trexler	221,229		316,657	
Capital Projects	1,419,250		3,360,267	
E-911	99,455			
Water fund		\$ 41,880,656		\$ 39,140,555
Sewer fund		24,859,270		23,367,469
Municipal golf course		3,245,043		3,059,705
Solid waste fund		4,148,303		4,492,719
Total	\$20,142,942	\$74,133,272	\$9,563,668	\$ 70,060,448

The City's governmental funds reported a combined fund balance of \$20.1 million at December 31, 2006. Of the total, \$8.6 million is restricted for CDBG projects, \$1.4 million is restricted for capital projects, and the general fund shows a of \$9.1 million,

The general fund balance increased by \$11 million, this is the second consecutive year that the general fund operated at a surplus. The general fund is the chief operating fund of the City. At December 31, 2006 the total general fund balance was \$9.1 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.

The General Fund change in fund balance is attributed to the revenue received from the loan proceeds. The proprietary fund activity changed significantly due to a change in the Water Fund debt.

Savings in personnel costs were incurred through the delay in filling City positions as they became vacant.

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 \$173 thousand during the year from the original budget of \$72.8 million to the final budget of \$72.9 million. Actual revenues were \$7.2 million above the final budget. Intergovernmental revenues were \$106 thousand higher than estimated due to timing of receipts. Tax receipts increased above final budget by \$203 thousand.

The general fund budget for expenditures increased \$6.4 million during the year from the original budget of \$63.2 million to the final budget of \$69.6 million. Actual expenditures were \$5 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 2007 budget does not include 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 2006, Allentown's economy continued to rebound. A number of new development projects were initiated, particularly on downtown Hamilton Street. Two new parking decks under construction will be completed in 2007 adding to the downtown business attractiveness. The City will have a Minor League AAA baseball franchise operating in 2008. The downtown arts district continued to be a focus of successful revitalization, with the construction of the arts park, the initiation of the transportation museum, and planned expansion of the art museum.

Fiscally, City expenses continue to increase at rates above the consumer price index, primarily as a result of previously negotiated or arbitrator-mandated multi-year labor contracts, increasing health care insurance costs, pension contribution costs, and debt service payments. Revenue initiatives and cost control measures to counter this squeeze are key activities.

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 (now LSI) 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, 2006

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
CURRENT ASSETS:				
Cash and cash equivalents	\$ 20,118,725	\$ 10,534,692	\$ 30,653,417	\$ 4,551,210
Receivables (net of allowance for uncollectibles):				
Taxes	1,229,240	-	1,229,240	-
Loans				1,670,253
Accounts	200,803	7,244,983	7,445,786	-
Grants	3,712,176	-	3,712,176	-
Other current assets	-	-	-	294,583
Internal balances	(91,859)	91,859	-	-
Total current assets	25,169,085	17,871,534	43,040,619	6,516,046
NONCURRENT ASSETS:				
Capital assets, net:				
Land	8,409,945	3,759,049	12,168,994	4,934,011
Property held for development	705,431	-	705,431	367,257
Buildings	8,345,438	21,800,953	30,146,391	7,310,357
Land and building improvements	8,955,007	17,207,553	26,162,560	12,708,298
Machinery and equipment	4,224,359	13,207,181	17,431,540	65,866
Vehicles	1,995,153	1,486,934	3,482,087	1,233,034
Distribution and collection systems	-	38,741,630	38,741,630	-
Construction in progress	10,925,094	687,516	11,612,610	11,335,171
Infrastructure	37,705,513	-	37,705,513	-
Total capital assets, net	81,265,940	96,890,816	178,156,756	37,953,994
Cash and cash equivalents, restricted	-	-	-	8,801,483
Net pension asset	845,486	-	845,486	-
Loans receivable	7,814,614	-	7,814,614	-
Other assets	882,470	2,148,054	3,030,524	1,644,645
Total noncurrent assets	90,808,510	99,038,870	189,847,380	48,400,122
TOTAL ASSETS	\$ 115,977,595	\$ 116,910,404	\$ 232,887,999	\$ 54,916,168
CURRENT LIABILITIES:				
Accounts payable and other current liabilities	\$ 4,768,211	\$ 1,529,078	\$ 6,297,289	\$ 767,772
Wages payable	1,371,024	281,787	1,652,811	-
Accrued interest payable	1,159,445	499,214	1,658,659	-
Claims liability	1,680,608	-	1,680,608	-
Other liabilities	977,431	107,848	1,085,279	242,395
Due to other governments	104,264	-	104,264	-
Accrued vacation	1,250,365	462,646	1,713,011	-
Unearned revenue	375,844	-	375,844	-
Capital leases payable	324,021	504,601	828,622	-
Notes and bonds payable	3,618,900	3,967,600	7,586,500	1,647,709
Total current liabilities	15,630,113	7,352,774	22,982,887	2,657,876
NONCURRENT LIABILITIES:				
Accounts payable, restricted	-	-	-	1,873,860
Capital leases payable	700,160	1,667,542	2,367,702	-
Accrued vacation	387,977	154,216	542,193	-
Unearned revenue	33,682	-	33,682	209,026
Notes and bonds payable	90,734,516	33,602,600	124,337,116	22,427,323
Total noncurrent liabilities	91,856,335	35,424,358	127,280,693	24,510,209
TOTAL LIABILITIES	107,486,448	42,777,132	150,263,580	27,168,085
NET ASSETS:				
Invested in capital assets, net of related debt	20,563,347	57,148,473	77,711,820	20,806,585
Restricted for roads	651,888	-	651,888	-
Restricted for parks	220,111	-	220,111	-
Restricted for E-911	99,455	-	99,455	-
Restricted for CD Block Grants	8,622,679	-	8,622,679	-
Unrestricted(deficit)	(21,666,333)	16,984,799	(4,681,534)	6,941,498
Total net assets:	8,491,147	74,133,272	82,624,419	27,748,083
TOTAL LIABILITIES AND NET ASSETS	\$ 115,977,595	\$ 116,910,404	\$ 232,887,999	\$ 54,916,168

See Notes to Financial Statements

CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

FOR THE PERIOD ENDED DECEMBER 31, 2000

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Primary government:				
Governmental activities:				
General government	\$ 11,591,907	\$ 1,169,888	\$ 40,276	\$ -
Public safety	35,746,269	5,792,822	854,668	78,535
Community development	8,687,031	1,560,786	5,737,214	19,395
Public works	11,363,182	941,958	1,805,919	2,134,475
Health and sanitation	4,450,785	181,677	2,436,956	-
Parks and recreation	3,392,513	327,358	1,637,564	-
Other	1,141,913	5,187,455	-	-
Interest on long-term debt	3,996,208	-	-	-
Total governmental activities	80,369,808	15,161,944	12,512,597	2,232,405
Business-type activities:				
Water fund	10,268,694	14,639,594	47,263	-
Sewer fund	12,376,807	16,104,610	58,764	-
Municipal golf course	735,697	1,067,497	1,292	-
Solid waste fund	9,530,362	8,830,880	701,058	-
Total business-type activities	32,911,560	40,642,581	808,377	-
Total primary government	\$113,281,368	\$ 55,804,525	\$13,320,974	\$ 2,232,405
COMPONENT UNITS				
Allentown Redevelopment Authority	\$ 472,237	\$ -	\$ 377,242	-
Allentown Economic Development Corporation	1,735,686	1,003,928	995,511	-
Allentown Parking Authority	3,650,589	5,193,015	5,054,258	-
Total component units	\$ 5,858,512	\$ 6,196,943	\$ 6,427,011	\$ -
General Revenues:				
Property and other taxes				
Grants and charges not restricted to specific programs				
Investment earnings				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

See Notes to Financial Statements

Statement consists of both facing pages

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-Type Activities	Total	Component Units
\$(10,381,743)		\$(10,381,743)	
(29,020,244)		(29,020,244)	
(1,369,636)		(1,369,636)	
(6,480,830)		(6,480,830)	
(1,832,152)		(1,832,152)	
(1,427,591)		(1,427,591)	
4,045,542		4,045,542	
<u>(3,996,208)</u>		<u>(3,996,208)</u>	
(50,462,862)		(50,462,862)	
-	\$ 4,418,163	4,418,163	
-	3,786,567	3,786,567	
-	333,092	333,092	
<u>-</u>	<u>1,576</u>	<u>1,576</u>	
<u>(50,462,862)</u>	<u>8,539,398</u>	<u>(41,923,464)</u>	
			\$ (94,995)
			263,753
			<u>6,596,684</u>
			<u>\$ 6,765,442</u>
48,512,216	-	48,512,216	-
6,146,246	-	6,146,246	-
973,003	479,682	1,452,685	782,383
<u>4,946,256</u>	<u>(4,946,256)</u>	<u>-</u>	<u>-</u>
<u>60,577,721</u>	<u>(4,466,574)</u>	<u>56,111,147</u>	<u>782,383</u>
10,114,859	4,072,824	14,187,683	7,547,825
<u>(1,623,712)</u>	<u>70,060,448</u>	<u>68,436,736</u>	<u>20,200,258</u>
<u>\$ 8,491,147</u>	<u>\$74,133,272</u>	<u>\$ 82,624,419</u>	<u>\$27,748,083</u>

CITY OF ALLENTOWN, PENNSYLVANIA

BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General	Pennsylvania Motor
<u>ASSETS</u>		
Cash and cash equivalents	\$ 9,205,796	\$ 779,749
Receivables:		
Taxes	1,229,240	-
Loans	-	-
Accounts	106,303	-
Grants	982,335	-
Due from other funds	<u>1,749,332</u>	<u>-</u>
TOTAL	\$ 13,273,006	\$ 779,749
<u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES		
Accounts payable	1,239,792	99,940
Accrued wages payable	1,304,103	27,921
Due to other funds	163,400	-
Due to other governments	9,194	-
Deferred revenues	849,438	-
Other liabilities	<u>578,638</u>	<u>-</u>
Total liabilities	<u>4,144,565</u>	<u>127,861</u>
FUND BALANCES:		
Reserved for encumbrances	-	-
Reserved for specific fund balances	-	651,888
Unreserved, undesignated	<u>9,128,441</u>	<u>-</u>
Total fund balances	<u>9,128,441</u>	<u>651,888</u>
TOTAL	\$ 13,273,006	\$ 779,749

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

Statement consists of both facing pages

Community Development Block Grant	Capital Projects	Trexler	E-911	Total Governmental Funds
\$ 1,365,787	\$ 1,199,849	\$ 30,032	\$ 1,039,921	\$ 13,621,134
-	-	-	-	1,229,240
7,814,614	-	-	-	7,814,614
-	94,500	-	-	200,803
2,449,355	-	280,486	-	3,712,176
<u>-</u>	<u>2,675,940</u>	<u>-</u>	<u>-</u>	<u>4,425,272</u>
<u>\$ 11,629,756</u>	<u>\$ 3,970,289</u>	<u>\$ 310,518</u>	<u>\$ 1,039,921</u>	<u>\$ 31,003,239</u>
1,425,318	1,197,453	18,854	29,596	4,010,953
3,272	-	33,340	-	1,368,636
1,180,800	1,260,999	37,095	531,437	3,173,731
95,070	-	-	-	104,264
-	-	-	375,844	1,225,282
<u>302,617</u>	<u>92,587</u>	<u>-</u>	<u>3,589</u>	<u>977,431</u>
<u>3,007,077</u>	<u>2,551,039</u>	<u>89,289</u>	<u>940,466</u>	<u>10,860,297</u>
-	1,419,250	1,118	-	1,420,368
8,622,679	-	220,111	99,455	9,594,133
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,128,441</u>
<u>8,622,679</u>	<u>1,419,250</u>	<u>221,229</u>	<u>99,455</u>	<u>20,142,942</u>
<u>\$ 11,629,756</u>	<u>\$ 3,970,289</u>	<u>\$ 310,518</u>	<u>\$ 1,039,921</u>	
				81,265,940
				849,438
				(1,159,445)
				845,486
				2,713,937
				848,788
				<u>(97,015,939)</u>
				<u>\$ 8,491,147</u>

CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General	Pennsylvania Motor	Community Development Block Grant
REVENUES:			
Taxes	\$ 47,342,430	\$ -	\$ -
Licenses and permits	3,248,191	-	-
Charges for services	4,335,314	-	-
Fines and forfeits	578,363	-	-
Investment earnings	817,252	48,794	46,744
Intergovernmental revenues	8,495,853	1,814,962	5,737,215
Other	<u>1,589,673</u>	<u>-</u>	<u>181,492</u>
Total revenues	<u>66,407,076</u>	<u>1,863,756</u>	<u>5,965,451</u>
EXPENDITURES:			
Current:			
General government	9,468,223	-	-
Public safety	34,504,230	-	-
Community development	4,086,712	-	4,516,964
Public works	7,378,492	1,809,549	-
Health and sanitation	4,402,484	-	-
Parks and recreation	1,240,030	-	-
Debt service:			
Principal	1,850,000	-	500,000
Interest		-	-
Payment of Debt Issuance Costs	251,525	-	-
Capital outlay	<u>652,085</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>63,833,781</u>	<u>1,809,549</u>	<u>5,016,964</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,573,295</u>	<u>54,207</u>	<u>948,487</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from Long Term Debt	12,053,400	-	-
Capital Lease Obligations	105,077	-	-
Transfers in	5,686,085	-	-
Transfers out	<u>(8,577,796)</u>	<u>-</u>	<u>(326,491)</u>
Total other financing sources and uses	<u>9,266,766</u>	<u>-</u>	<u>(326,491)</u>
NET CHANGE IN FUND BALANCES	11,840,061	54,207	621,996
FUND BALANCE (DEFICIT), BEGINNING	<u>(2,711,620)</u>	<u>597,681</u>	<u>8,000,683</u>
FUND BALANCE, ENDING	<u>\$ 9,128,441</u>	<u>\$ 651,888</u>	<u>\$ 8,622,679</u>

See Notes to Financial Statements

Statement consists of both facing pages

Debt Service	Capital Projects	Trexler	E-911	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 47,342,430
-	-	-	-	3,248,191
-	277,253	-	-	4,612,567
-	-	-	-	578,363
-	-	2,496	45,909	961,195
-	2,180,188	1,618,014	-	19,846,232
-	453,884	19,550	1,886,706	4,131,305
-	<u>2,911,325</u>	<u>1,640,060</u>	<u>1,932,615</u>	<u>80,720,283</u>
14,930	-	-	1,629,519	11,112,672
-	-	-	127,827	34,632,057
-	-	-	10,709	8,614,385
-	-	-	79,238	9,267,279
-	-	-	-	4,402,484
-	-	1,494,738	-	2,734,768
-	-	-	-	-
2,784,432	-	-	-	5,134,432
3,894,144	-	-	-	3,894,144
-	-	-	-	251,525
-	6,593,092	-	-	7,245,177
<u>6,693,506</u>	<u>6,593,092</u>	<u>1,494,738</u>	<u>1,847,293</u>	<u>87,288,923</u>
<u>(6,693,506)</u>	<u>(3,681,767)</u>	<u>145,322</u>	<u>85,322</u>	<u>(6,568,640)</u>
-	-	-	-	12,053,400
-	-	-	-	105,077
6,693,506	1,740,750	-	285,474	14,405,815
-	-	(240,750)	(271,341)	(9,416,378)
<u>6,693,506</u>	<u>1,740,750</u>	<u>(240,750)</u>	<u>14,133</u>	<u>17,147,914</u>
-	(1,941,017)	(95,428)	99,455	10,579,274
-	3,360,267	316,657	-	9,563,668
<u>\$ -</u>	<u>\$ 1,419,250</u>	<u>\$ 221,229</u>	<u>\$ 99,455</u>	<u>\$ 20,142,942</u>

CITY OF ALLENTOWN, PENNSYLVANIA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

Net change in fund balances - total governmental funds	\$ 10,579,274
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.	5,505,821
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.	(4,351,726)
The net effect of various transactions involving capital assets (i.e. disposals and contributions) is to decrease net assets.	(5,733)
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.	322,299
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.	(171,100)
Activities of the internal service fund are reported as net expense in the statement of activities.	5,144,274
Change in net pension asset not reflected in the funds.	(17,255)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds.	(12,053,400)
The repayment of principal of long term debt consumes the current financial resources of governmental funds.	5,213,669
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.	50,800
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>(102,064)</u>
Change in net assets of governmental activities	\$ <u>10,114,859</u>

See Notes to Financial Statements

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CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006**

	Water Fund	Sewer Fund
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,473,168	\$ 6,160,595
Accounts receivable:		
Metered charges	3,823,260	2,329,059
Refuse collection	-	-
Other	17,420	177,559
Signatories	392,227	1,456,087
Total accounts receivable	4,232,907	3,962,705
Allowance for doubtful accounts	856,074	565,019
Net accounts receivable	3,376,833	3,397,686
Due from other funds	163,400	2,604,399
Total current assets	6,013,401	12,162,680
CAPITAL ASSETS:		
Land	2,595,840	28,450
Buildings	11,550,094	29,312,419
Land and building improvements	14,835,936	4,860,721
Machinery and equipment	19,116,824	12,734,772
Vehicles	2,446,418	1,727,413
Distribution and collection systems	40,631,199	10,649,926
Construction in progress	223,383	464,133
Total capital assets	91,399,694	59,777,834
Accumulated depreciation	(29,463,648)	(30,870,437)
Net capital assets	61,936,046	28,907,397
Other assets	1,468,848	679,206
Total noncurrent assets	63,404,894	29,586,603
TOTAL	\$ 69,418,295	\$ 41,749,283

See notes to financial statements

Statement consists of both facing pages

<u>Municipal Golf Course</u>	<u>Solid Waste Fund</u>	<u>Totals</u>	<u>Internal Service Fund</u>
<u>\$ 274,239</u>	<u>\$ 1,626,690</u>	<u>\$ 10,534,692</u>	<u>\$ 6,497,591</u>
-	-	6,152,319	-
-	822,807	822,807	-
-	-	194,979	-
-	-	1,848,314	-
-	822,807	9,018,419	-
-	352,343	1,773,436	-
-	470,464	7,244,983	-
-	-	2,767,799	-
<u>274,239</u>	<u>2,097,154</u>	<u>20,547,474</u>	<u>6,497,591</u>
1,134,759	-	3,759,049	-
227,475	1,017,066	42,107,054	-
2,861,221	1,438,630	23,996,508	-
589,496	908,352	33,349,444	-
295,056	2,897,557	7,366,444	-
37,465	-	51,318,590	-
-	-	687,516	-
5,145,472	6,261,605	162,584,605	-
<u>(2,122,648)</u>	<u>(3,237,056)</u>	<u>(65,693,789)</u>	-
<u>3,022,824</u>	<u>3,024,549</u>	<u>96,890,816</u>	-
-	-	2,148,054	-
<u>3,022,824</u>	<u>3,024,549</u>	<u>99,038,870</u>	-
<u>\$ 3,297,063</u>	<u>\$ 5,121,703</u>	<u>\$ 119,586,344</u>	<u>\$ 6,497,591</u>

(continued)

CITY OF ALLENTOWN, PENNSYLVANIA
STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006

	Water Fund	Sewer Fund
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 259,587	\$ 513,466
Accrued wages payable	101,730	137,167
Accrued interest payable	282,260	216,954
Due to other funds	2,675,940	-
Capital leases payable	87,101	385,789
Claims liability	-	-
Other liabilities	-	-
Accrued Vacation	181,348	240,999
Current portion of long term liabilities	<u>2,862,600</u>	<u>1,105,000</u>
Total current liabilities	<u>6,450,566</u>	<u>2,599,375</u>
LONG-TERM LIABILITIES:		
Capital lease payable	319,024	1,315,305
Bonds payable	20,707,600	12,895,000
Accrued vacation	<u>60,449</u>	<u>80,333</u>
Total long-term liabilities	<u>21,087,073</u>	<u>14,290,638</u>
Total liabilities	<u>27,537,639</u>	<u>16,890,013</u>
NET ASSETS :		
Invested in capital assets, net of related debt	37,959,721	13,206,303
Unrestricted	<u>3,920,935</u>	<u>11,652,967</u>
Total net assets	<u>41,880,656</u>	<u>24,859,270</u>
TOTAL	<u>\$ 69,418,295</u>	<u>\$ 41,749,283</u>

See Notes to Financial Statements

Statement consists of both facing pages

Municipal Golf Course	Solid Waste Fund	Totals	Internal Service Fund
\$ 39,518	\$ 716,507	\$ 1,529,078	\$ 757,259
6,385	36,505	281,787	1,849
-	-	499,214	-
-	-	2,675,940	1,343,400
-	31,711	504,601	-
-	-	-	1,680,607
-	107,848	107,848	-
4,587	35,712	462,646	-
-	-	3,967,600	-
<u>50,490</u>	<u>928,283</u>	<u>10,028,714</u>	<u>3,783,115</u>
-	33,213	1,667,542	-
-	-	33,602,600	-
1,530	11,904	154,216	539
<u>1,530</u>	<u>45,117</u>	<u>35,424,358</u>	<u>539</u>
<u>52,020</u>	<u>973,400</u>	<u>45,453,072</u>	<u>3,783,654</u>
3,022,824	2,959,625	57,148,473	-
222,219	1,188,678	16,984,799	2,713,937
<u>3,245,043</u>	<u>4,148,303</u>	<u>74,133,272</u>	<u>2,713,937</u>
<u>\$ 3,297,063</u>	<u>\$ 5,121,703</u>	<u>\$ 119,586,344</u>	<u>\$ 6,497,591</u>

CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Water Fund	Sewer Fund	Municipal Golf Course
OPERATING REVENUES:			
Charges for services:			
Metered charges	\$ 12,190,421	\$ 7,517,351	-
Refuse collections	-	-	-
Recycling	-	-	-
Other charges	1,755,370	8,342,094	\$ 1,024,036
Miscellaneous	<u>693,803</u>	<u>245,165</u>	<u>43,461</u>
Total operating revenues	<u>14,639,594</u>	<u>16,104,610</u>	<u>1,067,497</u>
OPERATING EXPENSES:			
Personnel services	4,960,309	6,667,365	282,483
Utility services	556,768	759,083	14,537
Contracted services	133,263	644,545	172,254
Materials and supplies	1,056,419	1,229,447	53,054
Claims and benefits	-	-	-
Depreciation and amortization	2,172,366	2,079,159	211,331
Miscellaneous	<u>195,901</u>	<u>357,966</u>	<u>2,038</u>
Total operating expenses	<u>9,075,026</u>	<u>11,737,565</u>	<u>735,697</u>
OPERATING INCOME (LOSS)	<u>5,564,568</u>	<u>4,367,045</u>	<u>331,800</u>
NONOPERATING (EXPENSE) REVENUE:			
Investment income	134,204	192,636	6,732
Interest expense	(1,193,668)	(639,242)	-
Grants	<u>47,263</u>	<u>58,764</u>	<u>1,292</u>
Total nonoperating (expense) revenue	<u>(1,012,201)</u>	<u>(387,842)</u>	<u>8,024</u>
INCOME (LOSS) BEFORE TRANSFERS	4,552,367	3,979,203	339,824
TRANSFERS	<u>(1,812,266)</u>	<u>(2,487,402)</u>	<u>(154,486)</u>
NET INCOME (LOSS)	2,740,101	1,491,801	185,338
NET ASSETS (DEFICIT), BEGINNING	<u>39,140,555</u>	<u>23,367,469</u>	<u>3,059,705</u>
NET ASSETS, ENDING	<u>\$41,880,656</u>	<u>\$24,859,270</u>	<u>\$ 3,245,043</u>

See Notes to Financial Statements

Statement consists of both facing pages

Solid Waste Fund	Totals	Internal Service Fund
-	\$ 19,707,772	-
\$ 8,409,405	8,409,405	-
298,391	298,391	-
-	11,121,500	\$17,945,829
123,084	1,105,513	79,368
<u>8,830,880</u>	<u>40,642,581</u>	<u>18,025,197</u>
1,860,104	13,770,261	-
17,463	1,347,851	-
6,828,132	7,778,194	-
322,645	2,661,565	-
-	-	12,946,110
409,938	4,872,794	-
92,080	647,985	-
<u>9,530,362</u>	<u>31,078,650</u>	<u>12,946,110</u>
<u>(699,482)</u>	<u>9,563,931</u>	<u>5,079,087</u>
146,110	479,682	107,507
-	(1,832,910)	-
701,058	808,377	861
<u>847,168</u>	<u>(544,851)</u>	<u>108,368</u>
147,686	9,019,080	5,187,455
<u>(492,102)</u>	<u>(4,946,256)</u>	<u>(43,181)</u>
(344,416)	4,072,824	5,144,274
<u>4,492,719</u>	<u>70,060,448</u>	<u>(2,430,337)</u>
<u>\$ 4,148,303</u>	<u>\$ 74,133,272</u>	<u>\$ 2,713,937</u>

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Water Fund	Sewer Fund	Municipal Golf Course
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 14,687,877	\$ 16,480,225	\$ 1,067,497
Payments to suppliers for services	(1,817,751)	(4,216,595)	(208,989)
Payments to employees	(4,877,537)	(7,569,430)	(293,230)
Net cash provided by (used in) operating activities	<u>7,992,589</u>	<u>4,694,200</u>	<u>565,278</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES PROVIDED BY (USED IN):			
Operating grants received	47,263	58,764	1,292
Transfers	(1,812,266)	(1,563,364)	(154,486)
Net cash used in noncapital financing activities	<u>(1,765,003)</u>	<u>(1,504,600)</u>	<u>(153,194)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(588,519)	(765,019)	(83,431)
Advance from/to other funds	479,684	2,427,222	(71,819)
Principal paid on capital debt	(4,320,000)	(1,555,000)	-
Payments of obligations under capital leases	(83,425)	(369,344)	-
Interest paid on long term obligations	(1,738,396)	(662,060)	-
Net cash (used in) provided by capital and related financing activities	<u>(6,250,656)</u>	<u>(924,201)</u>	<u>(155,250)</u>
CASH FLOWS FROM INVESTING ACTIVITIES,			
Interest received	<u>134,204</u>	<u>192,636</u>	<u>6,732</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	111,134	2,458,035	263,566
CASH AND CASH EQUIVALENTS, BEGINNING	<u>2,362,034</u>	<u>3,702,560</u>	<u>10,673</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 2,473,168</u>	<u>\$ 6,160,595</u>	<u>\$ 274,239</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	<u>\$ 5,564,567</u>	<u>\$ 2,099,607</u>	<u>\$ 331,800</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,172,366	2,079,159	211,331
Accounts receivable	48,283	375,612	-
Accounts payable	124,599	117,847	32,896
Accrued payroll	82,774	21,975	(10,749)
Other liabilities	-	-	-
Total adjustments	<u>2,428,022</u>	<u>2,594,593</u>	<u>233,478</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 7,992,589</u>	<u>\$ 4,694,200</u>	<u>\$ 565,278</u>

See Notes to Financial Statements

Statement consists of both facing pages

Solid Waste Fund	Totals	Internal Service Fund
\$ 8,817,921	\$ 41,053,520	\$ 18,025,195
(7,237,551)	(13,480,886)	(13,067,930)
<u>(1,877,324)</u>	<u>(14,617,521)</u>	<u>(108,161)</u>
<u>(296,954)</u>	<u>12,955,113</u>	<u>4,849,104</u>
701,058	808,377	861
<u>(492,102)</u>	<u>(4,022,218)</u>	<u>(43,181)</u>
<u>208,956</u>	<u>(3,213,841)</u>	<u>(42,320)</u>
(671,080)	(2,108,049)	-
-	2,835,087	-
-	(5,875,000)	-
(64,265)	(517,034)	-
<u>-</u>	<u>(2,400,456)</u>	<u>-</u>
<u>(735,345)</u>	<u>(8,065,452)</u>	<u>-</u>
<u>146,110</u>	<u>479,682</u>	<u>107,507</u>
(677,233)	2,155,502	4,914,291
<u>2,303,923</u>	<u>8,379,190</u>	<u>1,583,300</u>
<u>\$ 1,626,690</u>	<u>\$ 10,534,692</u>	<u>\$ 6,497,591</u>
<u>\$ (699,480)</u>	<u>\$ 7,296,494</u>	<u>\$ 5,079,087</u>
409,935	4,872,791	-
(12,959)	410,936	-
(23,441)	251,901	508,671
(17,222)	76,778	(1,941)
<u>46,213</u>	<u>46,213</u>	<u>(736,713)</u>
<u>402,526</u>	<u>5,658,619</u>	<u>(229,983)</u>
<u>\$ (296,954)</u>	<u>\$ 12,955,113</u>	<u>\$ 4,849,104</u>

CITY OF ALLENTOWN, PENNSYLVANIA**STATEMENTS OF FIDUCIARY NET ASSETS
DECEMBER 31, 2006**

	Pension Trust Funds	Agency Funds
<hr/>		
<u>ASSETS</u>		
CASH AND CASH EQUIVALENTS	\$ 673,732	\$ 6,933,685
INTEREST RECEIVABLE	45,503	-
INVESTMENTS, At fair value		
Mutual Funds	98,032,731	-
Money Market Funds	<u>34,898,550</u>	<u>-</u>
 TOTAL	 <u>\$ 133,650,516</u>	 <u>\$ 6,933,685</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable	\$ 1,891,134	\$ -
Payroll tax liabilities	-	1,116,300
Due to other governments	<u>1,517,758</u>	<u>5,817,385</u>
Total liabilities	<u>3,408,892</u>	<u>6,933,685</u>
NET ASSETS:		
Reserved for pension benefits	<u>130,241,624</u>	<u>-</u>
 TOTAL	 <u>\$ 133,650,516</u>	 <u>\$ 6,933,685</u>

See Notes to Financial Statements

CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
DECEMBER 31, 2006**

	Pension Trust Funds
<hr/>	
ADDITIONS:	
Contributions:	
Employer	\$ 4,251,895
Plan members	<u>1,099,816</u>
Total contributions	<u>5,351,711</u>
Investment income:	
Net appreciation in fair value of investments	5,438,027
Interest and dividends	8,034,380
Less investment expenses	<u>(273,748)</u>
Net investment income	<u>13,198,659</u>
Other income:	
Miscellaneous	<u>22,329</u>
Total other income	<u>22,329</u>
Total additions	<u>18,572,699</u>
DEDUCTIONS:	
Benefits paid to recipients	14,804,520
Administrative and other fees	<u>194,448</u>
Total deductions	<u>14,998,968</u>
CHANGE IN NET ASSETS	3,573,731
NET ASSETS, BEGINNING	<u>126,667,893</u>
NET ASSETS, ENDING	<u>\$ 130,241,624</u>

See Notes to Financial Statements

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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. *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 - 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.

E-911 FUND - is used to account for the revenues received and eligible costs incurred by the City in the establishment, upgrading, expanding and operation of its emergency communications system for the purpose of providing emergency communications under the Pennsylvania Public Safety Emergency Telephone Act, Act 78, Section 8 (as amended).

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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the rule are payments to the internal services fund for risk management activities where the amounts charged are reasonably equivalent in value to services provided. Elimination of these charges would distort the direct costs of various functions.

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 is 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 \$969,000 at December 31, 2006.

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, 2006 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 of donation. 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 its useful life 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 2006 tax levy was 17.52 mills.

INTERFUND TRANSACTIONS

As a result of its operations, the City affects 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, 2006, 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, 2006, 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's 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 \$1,680,608 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.

**CONDENSED FINANCIAL STATEMENTS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF NET ASSETS
DECEMBER 31, 2006**

	ALLENTOWN REDEVELOPMENT <u>AUTHORITY</u>	ALLENTOWN ECONOMIC DEVELOPMENT <u>CORPORATION*</u>	ALLENTOWN PARKING <u>AUTHORITY</u>	<u>TOTAL</u>
ASSETS				
Cash and cash equivalents	\$ 119,671	\$ 2,155,580	\$ 1,787,959	\$ 4,063,210
Cash and cash equivalents, restricted	-	-	8,801,483	8,801,483
Investment, certificate of deposit	-	-	488,000	488,000
Accounts receivable, net	87,833	1,424,906	139,119	1,651,858
Due from other governments	18,395	-	-	18,395
Other assets	-	1,281,126	658,102	1,939,228
Capital assets, net	<u>367,257</u>	<u>12,919,228</u>	<u>24,667,509</u>	<u>37,953,994</u>
Total assets	<u>\$ 593,156</u>	<u>\$ 17,780,840</u>	<u>\$ 36,542,172</u>	<u>\$ 54,916,168</u>
LIABILITIES				
Accounts payable	\$ 7,237	\$ 137,903	\$ 374,104	\$ 519,244
Accounts payable, restricted	-	-	1,873,860	1,873,860
Long-term debt	-	3,929,715	20,145,317	24,075,032
Other liabilities	<u>20,184</u>	<u>318,726</u>	<u>361,039</u>	<u>699,949</u>
Total liabilities	<u>27,421</u>	<u>4,386,344</u>	<u>22,754,320</u>	<u>27,168,085</u>
NET ASSETS				
Invested in capital assets, net of related debt	367,257	8,989,513	11,449,815	20,806,585
Unrestricted	<u>198,478</u>	<u>4,404,983</u>	<u>2,338,037</u>	<u>6,941,498</u>
Total net assets	<u>565,735</u>	<u>13,394,496</u>	<u>13,787,852</u>	<u>27,748,083</u>
Total liabilities and net assets	<u>\$ 593,156</u>	<u>\$ 17,780,840</u>	<u>\$ 36,542,172</u>	<u>\$ 54,916,168</u>

* Presented as of June 30, 2006.

**CONDENSED FINANCIAL STATEMENTS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	ALLENTOWN REDEVELOPMENT <u>AUTHORITY</u>	ALLENTOWN ECONOMIC DEVELOPMENT <u>CORPORATION</u>	ALLENTOWN PARKING <u>AUTHORITY</u>	<u>TOTAL</u>
Program revenues:				
Charges for services	\$ -	\$ 1,003,928	\$ 5,125,340	\$ 6,129,268
Grants	377,242	995,511	5,054,258	6,427,011
General revenues:				
Investment income	8,258	97,107	677,018	782,383
Other income	<u>-</u>	<u>-</u>	<u>67,675</u>	<u>67,675</u>
Total revenues	<u>385,500</u>	<u>2,096,546</u>	<u>10,924,291</u>	<u>13,406,337</u>
Expenses:				
Operating and other expenses	472,237	1,070,149	2,591,330	4,133,716
Depreciation and amortization	-	254,267	723,161	977,428
Interest expense	-	237,552	336,098	573,650
Loss on disposal of assets	<u>-</u>	<u>173,718</u>	<u>-</u>	<u>173,718</u>
Total expenses	<u>472,237</u>	<u>1,735,686</u>	<u>3,650,589</u>	<u>5,858,512</u>
Net income (loss)	(86,737)	360,860	7,273,702	7,547,825
Net assets, beginning of year	<u>652,472</u>	<u>13,033,636</u>	<u>6,514,150</u>	<u>20,200,258</u>
Net assets, end of year	<u>\$ 565,735</u>	<u>\$ 13,394,496</u>	<u>\$ 13,787,852</u>	<u>\$ 27,748,083</u>

3. DEPOSITS AND INVESTMENTS

The carrying amounts of cash and investments at December 31, 2006 consist of the following:

Cash and cash equivalents	\$ 62,715,816
Investments	<u>108,476,299</u>
	<u>\$171,192,115</u>

RECONCILIATION TO STATEMENTS OF NET ASSETS/BALANCE SHEETS

Cash and cash equivalents:	
Governmental	\$ 20,118,725
Business-type	10,534,692
Fiduciary	<u>7,607,417</u>
	38,260,834
Investments, fiduciary	<u>132,931,281</u>
	<u>\$171,192,115</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, 2006, the carrying amounts of the City's bank deposits were \$62,715,816 and the bank balances were \$68,363,869, of which \$67,863,869 was exposed to custodial risk because it was not covered by Federal Depository Insurance.

INVESTMENTS

As of December 31, 2006, the City's investments were comprised of the following:

Mutual funds	\$ 98,032,731
Debt securities	<u>10,443,568</u>
Total	<u>\$108,476,299</u>

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

As of December 31, 2006, the City had the following investments in debt securities and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)				Rating
		Less than 1	1-5	6-10	More than 10	
United States Treasury Notes	\$ 4,354,757	\$ -	\$ 3,221,745	\$ 1,133,012	\$ -	N/A
United States Government agency securities	375,398	-	144,146	224,427	6,825	S&P's AAA Moody's Aaa
Corporate bonds	5,187,195	1,458,473	2,025,163	1,703,559	-	S&P's AAA Moody's Aaa
Other fixed income	<u>526,218</u>	<u>-</u>	<u>526,218</u>	<u>-</u>	<u>-</u>	S&P's AAA Moody's Aaa
Total investments	<u>\$10,443,568</u>	<u>\$ 1,458,473</u>	<u>\$ 5,917,272</u>	<u>\$ 3,060,998</u>	<u>\$ 6,825</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.

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, 2006, \$108,476,299 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 \$13,352,692 and the bank balances were \$15,537,959, of which \$14,303,439 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, 2006 is as follows:

	January 1, <u>2006</u>	<u>Additions</u>	<u>Disposals</u>	December 31, <u>2006</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 8,409,945	\$ -	\$ -	\$ 8,409,945
Property held for development	709,951	-	4,520	705,431
Art	95,166	-	-	95,166
Construction in progress	<u>6,730,090</u>	<u>4,870,857</u>	<u>675,853</u>	<u>10,925,094</u>
Total capital assets not being depreciated	<u>15,945,152</u>	<u>4,870,857</u>	<u>680,373</u>	<u>20,135,636</u>
Capital assets being depreciated:				
Buildings	22,855,807	17,118	-	22,872,925
Land and building improvements	17,545,109	641,247	755,297	17,431,059
Machinery and equipment	14,453,475	89,432	-	14,542,907
Vehicles	13,770,423	563,021	256,065	14,077,379
Infrastructure	<u>63,070,015</u>	<u>98,264</u>	<u>2,143</u>	<u>63,166,136</u>
Total capital assets being depreciated	<u>131,694,829</u>	<u>1,409,082</u>	<u>1,013,505</u>	<u>132,090,406</u>
Less accumulated depreciation for:				
Buildings	13,939,056	588,431	-	14,527,487
Land and building improvements	8,313,954	645,212	483,114	8,476,052
Machinery and equipment	9,680,249	733,465	-	10,413,714
Vehicles	11,231,361	1,110,912	260,047	12,082,226
Infrastructure	<u>24,188,366</u>	<u>1,273,706</u>	<u>1,449</u>	<u>25,460,623</u>
Total accumulated depreciation	<u>67,352,986</u>	<u>4,351,726</u>	<u>744,610</u>	<u>70,960,102</u>
Total capital assets being depreciated, net	<u>64,341,843</u>	<u>(2,942,644)</u>	<u>268,895</u>	<u>61,130,304</u>
Governmental activities capital assets, net	<u>\$ 80,286,995</u>	<u>\$ 1,928,213</u>	<u>\$ 949,268</u>	<u>\$ 81,265,940</u>

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

	January 1, <u>2006</u>	<u>Additions</u>	<u>Disposals</u>	December 31, <u>2006</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,759,049	\$ -	\$ -	\$ 3,759,049
Construction in progress	<u>451,695</u>	<u>478,119</u>	<u>242,298</u>	<u>687,516</u>
Total capital assets not being depreciated	<u>4,210,744</u>	<u>478,119</u>	<u>242,298</u>	<u>4,446,565</u>
Capital assets being depreciated:				
Buildings	41,854,002	253,052	-	42,107,054
Land and building improvements	23,744,541	251,966	-	23,996,507
Machinery and equipment	32,572,043	777,401	-	33,349,444
Vehicles	7,038,150	524,721	196,427	7,366,444
Distribution and collection systems	<u>51,103,277</u>	<u>221,290</u>	<u>5,976</u>	<u>51,318,591</u>
Total capital assets being depreciated	<u>156,312,013</u>	<u>2,028,430</u>	<u>202,403</u>	<u>158,138,040</u>
Less accumulated depreciation for:				
Buildings	19,137,354	1,168,747	-	20,306,101
Land and building improvements	6,043,631	745,323	-	6,788,954
Machinery and equipment	18,514,880	1,627,383	-	20,142,263
Vehicles	5,398,628	657,449	176,567	5,879,510
Distribution and collection systems	<u>12,050,177</u>	<u>532,760</u>	<u>5,976</u>	<u>12,576,961</u>
Total accumulated depreciation	<u>61,144,670</u>	<u>4,731,662</u>	<u>182,543</u>	<u>65,693,789</u>
Total capital assets being depreciated, net	<u>95,167,343</u>	<u>(2,703,232)</u>	<u>19,860</u>	<u>92,444,251</u>
Business-type activities capital assets, net	<u>\$ 99,378,087</u>	<u>\$ (2,225,113)</u>	<u>\$ 262,158</u>	<u>\$ 96,890,816</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 358,935
Public safety	1,114,212
Public works	2,099,887
Health	48,301
Parks and recreation	657,745
Community development and planning	<u>72,646</u>
Total	<u>\$ 4,351,726</u>

5. INTERFUND RECEIVABLE AND PAYABLE BALANCES

The composition of interfund balances as of December 31, 2006 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental activities:		
General Fund	\$ 1,749,332	\$ 163,400
Trexler Fund	-	37,095
E-911 Fund	-	531,437
Community Development Block Grant Fund	-	1,180,800
Capital Projects Fund	<u>2,675,940</u>	<u>1,260,999</u>
Total	<u>4,425,272</u>	<u>3,173,731</u>
Business-type activities:		
Water Fund	163,400	2,675,940
Sewer Fund	<u>2,604,399</u>	<u>-</u>
Total	<u>2,767,799</u>	<u>2,675,940</u>
Internal Service Fund	<u>-</u>	<u>1,343,400</u>
Total	<u>\$ 7,193,071</u>	<u>\$ 7,193,071</u>

Interfund balances represent short-term borrowing between funds.

6. INDIVIDUAL FUND INTERFUND TRANSFERS

The composition of interfund transfers as of December 31, 2006 is as follows:

	Transfers <u>In</u>	Transfers <u>Out</u>
Governmental activities:		
General Fund	\$ 5,686,085	\$ 8,577,796
Debt Service Fund	6,693,506	-
E-911 Fund	285,474	271,341
Trexler Fund	-	240,750
Community Development Block Grant Fund	-	326,491
Capital Projects Fund	1,740,750	-
Business-type activities:		
Water Fund	-	1,812,266
Sewer Fund	-	2,487,402
Municipal Golf Course Fund	-	154,486
Solid Waste Fund	-	492,102
Internal Service Fund	<u>-</u>	<u>43,181</u>
Total	<u>\$14,405,815</u>	<u>\$14,405,815</u>

Transfers out were made from the General Fund to the Debt Service Fund of \$6,521,693 for debt payments.

Transfers to the Debt Service Fund were also made from the following: Water Fund \$12,019, Sewer Fund \$24,038, Solid Waste Fund \$17,257, E-911 Fund \$12,019 and Municipal Golf Course Fund \$106,480 for debt payments.

Transfers in totaling \$3,638,965 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, E-911, Solid Waste and Municipal Golf Course Funds).

Transfers totaling \$1,740,750 were made to the Capital Projects Fund from the General Fund \$1,250,000, E-911 Fund \$250,000 and Trexler Fund \$240,750. These transferred funds were earmarked for General Fund projects, emergency communication projects and enhancement of the park system.

A transfer of \$285,474 was made from the General Fund to the E-911 Fund to cover ineligible expenses per the Pennsylvania Public Safety Emergency Telephone Act.

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's three single employer pension plans do not issue separate financial statements.

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. Benefits and refunds of the Plans are recognized when due and payable with the term of each Plan. The following is a statement of fiduciary net assets and statement of changes in fiduciary net assets for the City's three single employer defined benefit plans:

	<u>Officers and Employees' Pension Fund</u>	<u>Policemen's Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Total Pension Trust Funds</u>
<u>ASSETS</u>				
CASH AND CASH EQUIVALENTS	\$ (3,823)	\$ 526,609	\$ 150,946	\$ 673,732
INTEREST RECEIVABLE	6,064	25,828	13,611	45,503
INVESTMENTS, at fair value:				
Mutual funds	19,784,885	46,460,272	31,787,574	98,032,731
Debt securities and money market funds	<u>6,568,198</u>	<u>17,128,543</u>	<u>11,201,809</u>	<u>34,898,550</u>
TOTAL	<u>\$ 26,355,324</u>	<u>\$ 64,141,252</u>	<u>\$ 43,153,940</u>	<u>\$ 133,650,516</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
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES:				
Accounts payable	\$ 1,891,134	\$ -	\$ -	\$ 1,891,134
Due to other governments	<u>1,517,758</u>	<u>-</u>	<u>-</u>	<u>1,517,758</u>
Total liabilities	3,408,892	-	-	3,408,892
NET ASSETS, reserved for pension benefits	<u>22,946,432</u>	<u>64,141,252</u>	<u>43,153,940</u>	<u>130,241,624</u>
TOTAL	<u>\$ 26,355,324</u>	<u>\$ 64,141,252</u>	<u>\$ 43,153,940</u>	<u>\$ 133,650,516</u>
ADDITIONS:				
Contributions:				
Employer	\$ -	\$ 3,010,528	\$ 1,241,367	\$ 4,251,895
Plan members	<u>22,629</u>	<u>657,168</u>	<u>420,019</u>	<u>1,099,816</u>
Total contributions	<u>22,629</u>	<u>3,667,696</u>	<u>1,661,386</u>	<u>5,351,711</u>
Investment earnings:				
Net appreciation in fair value of investments	1,165,077	2,537,907	1,735,043	5,438,027
Interest and dividends	1,573,803	3,839,512	2,621,065	8,034,380
Less investment expenses	<u>(63,283)</u>	<u>(136,728)</u>	<u>(73,737)</u>	<u>(273,748)</u>
Net investment earnings	<u>2,675,597</u>	<u>6,240,691</u>	<u>4,282,371</u>	<u>13,198,659</u>
Other income, miscellaneous	<u>2,904</u>	<u>15,514</u>	<u>3,911</u>	<u>22,329</u>
Total additions	<u>2,701,130</u>	<u>9,923,901</u>	<u>5,947,668</u>	<u>18,572,699</u>
DEDUCTIONS:				
Benefits paid to recipients	3,154,974	7,751,223	3,898,323	14,804,520
Administrative and other fees	<u>163,052</u>	<u>15,676</u>	<u>15,720</u>	<u>194,448</u>
Total deductions	<u>3,318,026</u>	<u>7,766,899</u>	<u>3,914,043</u>	<u>14,998,968</u>
CHANGE IN NET ASSETS	(616,896)	2,157,002	2,033,625	3,573,731
NET ASSETS, BEGINNING	<u>23,563,328</u>	<u>61,984,250</u>	<u>41,120,315</u>	<u>126,667,893</u>
NET ASSETS, ENDING	<u>\$ 22,946,432</u>	<u>\$ 64,141,252</u>	<u>\$ 43,153,940</u>	<u>\$ 130,241,624</u>

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

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

	Policemen	Firemen	Officers and Employees	PMRS
<u>Covered Employees</u>	All full-time members of the Police Force	All full-time members of the Fire Department	Closed 6/8/76	All full-time employees not previously covered
Number of active plan members	164	135	10	540
Number of retirees and beneficiaries receiving benefits	249	166	262	161
Terminated employees entitled to deferred benefits	-	-	-	22

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 exceed state and member contributions must be funded by the employer.

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

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)	\$ 3,010,528	\$ 1,241,367	\$ -
Interest on net pension asset	(42,749)	(23,654)	(2,616)
Adjustment to annual required contribution	<u>53,436</u>	<u>29,567</u>	<u>3,270</u>
Annual pension cost	3,021,215	1,247,280	654
Contributions made	<u>3,010,528</u>	<u>1,241,367</u>	<u>-</u>
Decrease in net pension asset	10,687	5,913	654
Net pension asset, beginning of year	<u>(534,368)</u>	<u>(295,669)</u>	<u>(32,704)</u>
Net pension asset, end of year	<u>\$ (523,681)</u>	<u>\$ (289,756)</u>	<u>\$ (32,050)</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	12/31/04	\$ 2,580,070	99.9%	\$ 178,767
	12/31/05	2,456,772	114.5%	534,368
	12/31/06	3,021,215	99.7%	523,681
Firemen	12/31/04	954,502	97.8%	94,490
	12/31/05	817,453	124.6%	295,669
	12/31/06	1,247,280	99.5%	289,756
Officers and Employees	12/31/04	681	100%	33,370
	12/31/05	666	100%	32,704
	12/31/06	655	100%	32,049
Pennsylvania Municipal	12/31/04	345,520	100%	-
Retirement	12/31/05	358,968	100%	-
Plan	12/31/06	446,843	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 and (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 actuarial accrued liability was fully funded at January 1, 2005.

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

At December 31, 2006, 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, 2006, general long-term debt obligations of the City's governmental activities were as follows:

	Balance Outstanding January 1, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2006</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	\$ 1,000,000	\$ -	\$ 500,000	\$ 500,000	\$ 500,000
<u>Notes and General Obligation Bonds</u>					
2006 Note, 3.85% interest, varying principal annual payments of \$218,400 to \$286,400 due in 2014	-	2,053,400	46,600	2,006,800	218,400
2006 Guaranteed Lease Revenue Note, 5.84% to 2016, then 9.40%, payable in annual installments of \$693,750 to 2016, then \$1,003,820 to 2031	-	10,000,000	12,832	9,987,168	110,500
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	-
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	-

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Notes and General Obligation Bonds	Balance Outstanding January 1, 2006	Additions	Reductions	Balance Outstanding December 31, 2006	Current Portion
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	\$ -
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	35,335,000	-	660,000	34,675,000	675,000
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	18,710,000	-	1,830,000	16,880,000	1,870,000
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>6,565,000</u>	<u>-</u>	<u>235,000</u>	<u>6,330,000</u>	<u>245,000</u>
	<u>85,100,000</u>	<u>12,053,400</u>	<u>4,634,432</u>	<u>92,518,968</u>	<u>3,118,900</u>
Total Notes and General Obligation Bonds	86,100,000	12,053,400	5,134,432	93,018,968	3,618,900
Premium on bond issuance	<u>1,413,685</u>	<u>-</u>	<u>79,237</u>	<u>1,334,448</u>	<u>-</u>
Total	<u>\$ 87,513,685</u>	<u>\$ 12,053,400</u>	<u>\$ 5,213,669</u>	<u>\$ 94,353,416</u>	<u>\$ 3,618,900</u>

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

At December 31, 2006, the business-type activities' long-term debt consisted of the following:

<u>Revenue Notes and Bonds</u>	<u>Balance Outstanding January 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding December 31, 2006</u>	<u>Current Portion</u>
2006 Note, 3.85% interest, varying principal annual payments of \$327,600 to \$429,600 in 2014	\$ -	\$ 3,196,600	\$ 186,400	\$ 3,010,200	\$ 327,600
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	3,360,000	-	3,360,000	-	-
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	2,555,000	-	1,505,000	1,050,000	155,000
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	470,000	-	55,000	415,000	65,000
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	4,265,000	-	470,000	3,795,000	490,000
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	7,300,000	-	1,045,000	6,255,000	580,000

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

	Balance Outstanding January 1, 2006	Additions	Reductions	Balance Outstanding December 31, 2006	Current Portion
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	\$ 11,890,000	\$ -	\$ 1,310,000	\$ 10,580,000	\$ 1,350,000
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	1,575,000	-	70,000	1,505,000	75,000
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	1,790,000	-	350,000	1,440,000	360,000
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	5,205,000	-	360,000	4,845,000	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	2,765,000	-	175,000	2,590,000	180,000
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>360,000</u>	<u>-</u>	<u>25,000</u>	<u>335,000</u>	<u>25,000</u>
Total	<u>\$ 43,285,000</u>	<u>\$ 3,196,600</u>	<u>\$ 8,911,400</u>	<u>\$ 37,570,200</u>	<u>\$ 3,967,600</u>

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Debt service requirements to maturity, including interest of \$63,076,869, are as follows:

<u>Year Ending</u>	<u>Business- Type Activities</u>	<u>Governmental Activities</u>	<u>Total</u>
2007	\$ 5,605,496	\$ 7,745,893	\$ 13,351,389
2008	5,267,530	7,572,430	12,839,960
2009	4,759,417	9,747,607	14,507,024
2010	4,774,613	9,753,916	14,528,529
2011	4,576,030	9,431,251	14,007,281
2012-2016	17,050,724	36,649,071	53,699,795
2017-2021	5,336,675	23,812,040	29,148,715
2022-2026	304,675	17,824,690	18,129,365
2027-2031	-	16,320,704	16,320,704
2032-2034	<u>-</u>	<u>7,133,275</u>	<u>7,133,275</u>
Total	<u>\$ 47,675,160</u>	<u>\$145,990,877</u>	<u>\$193,666,037</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, 2006, \$8,755,000 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>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2006</u>	<u>Current Portion</u>
Accrued vacation:					
Governmental activities	\$ 1,467,242	\$ 2,478,970	\$ 2,394,303	\$ 1,551,909	\$ 1,250,365
Business-type activities	<u>638,534</u>	<u>635,531</u>	<u>657,203</u>	<u>616,862</u>	<u>462,669</u>
Total accrued vacation	<u>\$ 2,105,776</u>	<u>\$ 3,114,501</u>	<u>\$ 3,051,506</u>	<u>\$ 2,168,771</u>	<u>\$ 1,713,034</u>
Capital leases:					
Governmental activities	\$ 1,272,836	\$ 105,077	\$ 353,732	\$ 1,024,181	\$ 324,021
Business-type activities	<u>2,689,177</u>	<u>-</u>	<u>517,033</u>	<u>2,172,144</u>	<u>504,601</u>
Total capital leases	<u>\$ 3,962,013</u>	<u>\$ 105,077</u>	<u>\$ 870,765</u>	<u>\$ 3,196,325</u>	<u>\$ 828,622</u>

The capital assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Machinery, equipment and vehicles	\$ 2,244,948	\$ 3,219,596	\$ 5,464,544
Less accumulated depreciation	<u>1,309,551</u>	<u>465,807</u>	<u>1,775,358</u>
	<u>\$ 935,397</u>	<u>\$ 2,753,789</u>	<u>\$ 3,689,186</u>

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

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>
2007	\$ 364,168	\$ 590,590	\$ 954,758
2008	235,620	590,590	826,210
2009	216,873	514,679	731,552
2010	191,660	514,679	706,339
2011	63,933	171,560	235,493
Thereafter	<u>63,933</u>	<u>-</u>	<u>63,933</u>
	1,136,187	2,382,098	3,518,285
Less interest	<u>112,005</u>	<u>209,954</u>	<u>321,959</u>
	<u>\$ 1,024,182</u>	<u>\$ 2,172,144</u>	<u>\$ 3,196,326</u>

DISCRETELY PRESENTED COMPONENT UNITS' LONG-TERM DEBT:

At December 31, 2006, the long-term debt of the discretely presented component units consisted of the following:

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2006</u>	<u>Current Portion</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	\$ 4,155,000	\$ -	\$ 460,000	\$ 3,695,000	\$ 470,000
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	5,010,000	-	570,000	4,440,000	580,000
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	-	235,000	12,030,000	220,000

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

	Balance January 1, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2006</u>	<u>Current Portion</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	\$ 12,424	\$ -	\$ 12,424	\$ -	\$ -
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	<u>4,000,000</u>	<u>-</u>	<u>70,285</u>	<u>3,929,715</u>	<u>77,742</u>
Total long-term debt	25,442,424	-	1,347,709	24,094,715	1,347,742
Less unamortized deferred costs of refunding	<u>401,422</u>	<u>-</u>	<u>40,886</u>	<u>360,536</u>	<u>40,886</u>
	<u>\$ 25,041,002</u>	<u>\$ -</u>	<u>\$ 1,306,823</u>	<u>\$ 23,734,179</u>	<u>\$ 1,306,856</u>

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

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Debt service requirements to maturity, including interest of \$13,279,959, are as follows for the Allentown Parking Authority and AEDC:

<u>Year Ending</u>	<u>Allentown Parking Authority</u>	<u>Allentown Economic Development Corporation</u>	<u>Total</u>
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	1,851,999	302,842	2,154,841
2012-2016	7,118,830	4,250,097	11,368,927
2017-2021	3,836,127	-	3,836,127
2022-2026	3,832,775	-	3,832,775
2027-2031	3,830,340	-	3,830,340
2032-2035	<u>3,062,750</u>	<u>-</u>	<u>3,062,750</u>
Total	<u>\$31,610,369</u>	<u>\$ 5,764,305</u>	<u>\$37,374,674</u>

LINE OF CREDIT:

The Allentown Parking Authority has a \$1,000,000 line of credit with a bank at 70% of the Wall Street Journal Prime Rate which was 5.775% at December 31, 2006. At December 31, 2006, \$340,853 was outstanding on the line of credit.

9. RISK MANAGEMENT, ACCRUED CLAIMS LIABILITY

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; natural disasters for which the City has established a limited risk management program as further described in Note 1.

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

	<u>2006</u>	<u>2005</u>
Accrued claims liability, January 1,	\$ 1,794,160	\$ 2,579,096
Included claims (including estimated claims incurred but not reported as of December 31):		
Provision for current year events	1,683,885	1,069,605
Payments	<u>(1,797,437)</u>	<u>(1,854,541)</u>
Accrued claims liability, December 31	<u>\$ 1,680,608</u>	<u>\$ 1,794,160</u>
Current portion	<u>\$ 1,680,608</u>	<u>\$ 1,794,160</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 healthcare benefits.

Expenditures for postemployment health care are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, expenditures of approximately \$1,000,000 were recognized for such postemployment healthcare benefits.

11. 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, 2006, 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.

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.

12. NEW ACCOUNTING PRONOUNCEMENTS

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

The GASB has issued 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*.

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.

13. SUBSEQUENT EVENT

On May 30, 2007, an accident occurred where two City police vehicles struck and killed a minor child. The City's liability in this matter cannot be determined but is expected to be in excess of \$ 500,000.

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CITY OF ALLENTOWN, PENNSYLVANIA**REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -****BUDGETARY BASIS - GENERAL FUND****FOR THE YEAR ENDED DECEMBER 31, 2006****General Fund**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final Budget</u>
REVENUES:				
<u>TAXES:</u>				
Real estate:				
Current	\$ 28,350,000	\$ 28,350,000	\$ 28,464,063	\$ 114,063
Prior year	1,250,000	1,250,000	1,312,503	62,503
Lehigh County Tax Claims	7,500	7,500	34,331	26,831
Total Real Estate Taxes	29,607,500	29,607,500	29,810,897	203,397
Act 511 Taxes:				
Earned Income	7,200,000	7,200,000	7,092,827	(107,173)
Residence	275,000	275,000	265,554	(9,446)
Amusement Devices	27,000	27,000	26,037	(963)
Deed Transfer	2,000,000	2,000,000	2,645,207	645,207
Occupational Privilege	375,000	375,000	399,724	24,724
EMS Tax	-	-	683,883	683,883
Business Privilege	6,200,000	6,200,000	6,376,629	176,629
Total Act 511 Taxes	16,077,000	16,077,000	17,489,861	1,412,861
TOTAL TAXES	45,684,500	45,684,500	47,300,758	1,616,258
<u>LICENSES AND PERMITS:</u>				
Business Licenses	380,000	380,000	432,044	52,044
Billboard & Sign Permits/Licenses	10,000	10,000	9,902	(98)
Building Permits & Licenses	450,000	450,000	555,404	105,404
Liquor Licenses	63,000	63,000	55,450	(7,550)
Plumbing Permits & Licenses	130,000	130,000	169,875	39,875
Health Bureau Permits & Licenses	145,000	145,000	144,196	(804)
Rental Inspection Program	500,000	500,000	461,884	(38,116)
Electrical Permits & Licenses	150,000	150,000	172,190	22,190
Zoning Permits & Fees	100,000	100,000	108,770	8,770
Fire Department Inspection Fees	60,000	60,000	54,171	(5,829)
CATV Franchise Fees	950,000	950,000	935,488	(14,512)
Other Permits & Licenses	140,000	140,000	148,817	8,817
TOTAL LICENSES AND PERMITS	3,078,000	3,078,000	3,248,191	170,191

CITY OF ALLENTOWN, PENNSYLVANIA**REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -****BUDGETARY BASIS - GENERAL FUND (continued)****FOR THE YEAR ENDED DECEMBER 31, 2006****General Fund**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final Budget</u>
<u>FINES AND FORFEITS:</u>				
District Court	\$ 425,000	\$ 425,000	\$ 366,543	\$ (58,457)
Fines & Restitution	165,000	165,000	211,820	46,820
TOTAL FINES AND FORFEITS	590,000	\$590,000	\$578,363	(\$11,637)
<u>INTERGOVERNMENTAL REVENUES:</u>				
Health Grants Acts 315 & 12	800,000	800,000	766,502	(33,498)
Health Categorical Grants	1,972,000	2,007,420	1,657,488	(349,932)
Police/Fire Training	350,000	350,000	255,507	(94,493)
Snow Control	-	-	54,455	54,455
State Aid for Pension	3,650,000	3,650,000	3,851,009	201,009
Police Grants/Reimbursements	775,000	775,000	852,477	77,477
Other Grants/Miscellaneous	532,000	656,220	907,049	250,829
TOTAL INTERGOVERNMENTAL REVENUES	8,079,000	8,238,640	8,344,487	105,847
<u>CHARGES FOR SERVICES:</u>				
Department Earnings:				
Tax/Municipal Certifications	150,000	150,000	182,742	32,742
A.S.D. Tax Billing/Reimbursement	63,000	63,000	16,451	(46,549)
Police Extra Duty Jobs	175,000	175,000	227,125	52,125
Health Bureau Services	10,000	10,000	37,481	27,481
Street Excavation/Restoration	65,000	65,000	35,068	(29,932)
Printing & Copier Fees	110,000	110,000	109,004	(996)
Other Charges for Service	175,000	175,000	152,992	(22,008)
Vehicle Towing Agreement	78,000	78,000	60,300	(17,700)
911 Phone Line Service Charges	17,400	17,400	-	(17,400)
EMS Transit Fees	2,775,000	2,775,000	2,666,816	(108,184)
Warrants of Survey	20,000	20,000	13,229	(6,771)
Total Departmental Earnings	3,638,400	3,638,400	3,501,208	(137,192)

CITY OF ALLENTOWN, PENNSYLVANIA**REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -****BUDGETARY BASIS - GENERAL FUND (continued)****FOR THE YEAR ENDED DECEMBER 31, 2006**

General Fund				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final Budget</u>
Municipal Recreation:				
Swimming Pool Fees	120,000	120,000	107,786	(12,214)
Recreation Fees	85,000	85,000	65,273	(19,727)
Total Municipal Recreation	205,000	205,000	173,059	(31,941)
General Fund Service Charges:				
Water Service Charges	1,700,247	1,700,247	1,700,247	-
Sewer Service Charges	1,363,364	1,363,364	1,363,364	-
Other Service Charges	583,440	583,440	575,354	(8,086)
Total General Fund Service Charges	3,647,051	3,647,051	3,638,965	(8,086)
TOTAL CHARGES FOR SERVICE	7,490,451	7,490,451	7,313,232	(177,219)
INVESTMENT INCOME	409,000	409,000	826,514	417,514
<u>OTHER INCOME:</u>				
Rental of City Property	90,000	90,000	118,950	28,950
Parking Garage Rents	57,500	57,500	41,062	(16,438)
Debt Proceeds-leaseback of City Property	5,000,000	5,000,000	10,321,201	5,321,201
Contributions	75,000	76,355	40,276	(36,079)
Damage to City Property	30,000	30,000	14,978	(15,022)
Lights in the Parkway	165,000	165,000	154,304	(10,696)
Pennsylvania Utility Realty Tax	65,000	65,000	74,552	9,552
Allentown Housing Authority	60,000	60,000	139	(59,861)
Excess Sewage Capacity Sales	-	-	544,500	544,500
City Auction Proceeds	61,500	61,500	30,989	(30,511)
Equipment Fund Transfer	520,629	520,629	520,629	-
Miscellaneous	1,300,500	1,312,500	666,914	(645,586)
TOTAL OTHER INCOME	7,425,129	7,438,484	12,528,494	5,090,010
TOTAL REVENUES	\$ 72,756,080	\$ 72,929,075	\$ 80,140,039	\$ 7,210,964

CITY OF ALLENTOWN, PENNSYLVANIA**REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -****BUDGETARY BASIS - GENERAL FUND (continued)****FOR THE YEAR ENDED DECEMBER 31, 2006**

General Fund				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final Budget</u>
EXPENDITURES:				
<u>GENERAL GOVERNMENT:</u>				
Nondepartmental:				
City Council	299,444	309,394	275,008	34,386
Office of the Mayor	328,308	328,308	320,472	7,836
City Controller	268,052	268,419	205,907	62,512
Law	490,504	491,239	453,981	37,258
General and Civic	1,756,858	6,650,013	6,351,140	298,873
Total Nondepartmental	3,143,166	8,047,373	7,606,508	440,865
Department of Finance				
Finance	3,266,046	3,274,040	3,009,701	264,339
Total Department of Finance	3,266,046	3,274,040	3,009,701	264,339
Human Resources				
	544,176	548,875	482,403	66,472
Total Human Resources	544,176	548,875	482,403	66,472
<u>Management Systems:</u>				
Management Director & Information Svcs	1,292,972	1,288,972	1,105,475	183,497
TOTAL MANAGEMENT SYSTEMS	1,292,972	1,288,972	1,105,475	183,497
TOTAL GENERAL GOVERNMENT	8,246,360	13,159,260	12,204,087	955,173
<u>PUBLIC SAFETY:</u>				
Department of Public Safety:				
Police	23,680,699	24,070,825	22,598,725	1,472,100
Fire	11,707,674	11,733,978	11,976,515	(242,537)
Communications	711,267	722,737	616,066	106,671
TOTAL PUBLIC SAFETY	36,099,640	36,527,540	35,191,306	1,336,234

CITY OF ALLENTOWN, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -

BUDGETARY BASIS - GENERAL FUND (continued)

FOR THE YEAR ENDED DECEMBER 31, 2006

General Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final Budget</u>
<u>PUBLIC WORKS:</u>				
Department of Public Works:				
Director's office	103,918	103,918	108,382	(4,464)
Engineering	217,611	256,989	190,253	66,736
Building Maintenance	1,854,381	1,875,696	1,701,365	174,331
Fleet Maintenance Operation	2,328,080	2,328,080	2,273,804	54,276
Streets	1,833,768	1,834,544	1,608,815	225,729
Traffic Planning and Control	826,183	1,251,139	970,207	280,932
Street Lighting	629,516	629,516	614,887	14,629
TOTAL PUBLIC WORKS	7,793,457	8,279,882	7,467,713	812,169
<u>HEALTH AND SANITATION:</u>				
Department of Community Development:				
Health	3,592,764	3,715,097	3,343,103	371,994
TOTAL HEALTH AND SANITATION	3,592,764	3,715,097	3,343,103	371,994
<u>PARKS AND RECREATION:</u>				
Department of Community Development:				
Park Maintenance	710,508	717,055	534,860	182,195
Recreation	578,147	585,147	486,655	98,492
Swimming Pool Operation	232,387	232,387	229,003	3,384
TOTAL PARKS AND RECREATION	1,521,042	1,534,589	1,250,518	284,071
<u>COMMUNITY DEVELOPMENT:</u>				
Department of Community Development:				
Director's Office	1,525,286	1,562,895	1,248,106	314,789
Planning and Zoning	721,938	829,357	789,446	39,911
Building Standards & Safety	3,002,393	3,286,246	2,394,509	891,737
TOTAL COMMUNITY DEVELOPMENT AND PLANNING	5,249,617	5,678,498	4,432,061	1,246,437
CAPITAL OUTLAYS	654,141	716,002	691,339	24,663
TOTAL CAPITAL OUTLAYS	654,141	716,002	691,339	24,663
TOTAL EXPENDITURES	63,157,021	69,610,868	64,580,127	5,030,741
Excess (deficiency) of revenues over (under) expenditures	\$ 9,599,059	\$ 3,318,207	\$ 15,559,912	\$ 12,241,705

CITY OF ALLENTOWN, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -

BUDGETARY BASIS - GENERAL FUND (continued)

FOR THE YEAR ENDED DECEMBER 31, 2006

General Fund				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final Budget</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfers In:				
Sewage Capacity Sales	950,000	950,000	1,000,000	50,000
Homeland Security for Water/Sewer	200,000	200,000	200,000	-
CD Block Grant Reimbursement	434,000	434,000	429,017	(4,983)
Trexler Maintenance Grant	373,000	373,000	-	(373,000)
Operating Transfers Out:				
Debt Service Fund	(6,873,026)	(6,873,026)	(6,521,693)	351,333
911 Fund	(357,171)	(357,171)	(357,171)	-
TOTAL OTHER FINANCING SOURCES (uses) net	(5,273,197)	(5,273,197)	(5,249,847)	23,350
 Net change in fund balances:	 <u>\$ 4,325,862</u>	 <u>\$ (1,954,990)</u>	 \$ 10,310,065	 <u>\$ 12,265,055</u>
 Add back reserve for encumbrances			1,376,393	
Net effect of other income, and expenditure accruals			<u>153,603</u>	
 Net change in fund balances			11,840,061	
 FUND BALANCES (DEFICIT), BEGINNING OF YEAR			<u>(2,711,620)</u>	
 FUND BALANCES, END OF YEAR			<u>\$ 9,128,441</u>	

See notes to financial statements.

CITY OF ALLENTOWN, PENNSYLVANIA**REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -****BUDGETARY BASIS - PENNSYLVANIA MOTOR FUND****FOR THE YEAR ENDED DECEMBER 31, 2006**

Pennsylvania Motor Fund				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final Budget</u>
REVENUES:				
<u>INTERGOVERNMENTAL REVENUES:</u>				
PA Liquid Fuels Tax	\$ 1,794,798	\$ 1,794,798	\$ 1,805,919	\$ 11,121
State Aid for Pension	9,100	9,100	9,043	(57)
TOTAL INTERGOVERNMENTAL REVENUES	1,803,898	1,803,898	1,814,962	11,064
INVESTMENT INCOME	20,000	20,000	47,872	27,872
<u>OTHER INCOME:</u>				
Miscellaneous	5,000	5,000	-	(5,000)
TOTAL OTHER INCOME	5,000	5,000	-	(5,000)
TOTAL REVENUES	\$ 1,828,898	\$ 1,828,898	\$ 1,862,834	\$ 33,936
EXPENDITURES:				
<u>PUBLIC WORKS</u>				
Department of Public Works:				
Streets	1,851,085	2,063,906	1,924,655	139,251
TOTAL PUBLIC WORKS	1,851,085	2,063,906	1,924,655	139,251
TOTAL EXPENDITURES	1,851,085	2,063,906	1,924,655	139,251
Excess (deficiency) of revenues over (under) expenditures	\$ (22,187)	\$ (235,008)	\$ (61,821)	\$ 173,187

CITY OF ALLENTOWN, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -

BUDGETARY BASIS - PENNSYLVANIA MOTOR FUND

FOR THE YEAR ENDED DECEMBER 31, 2006

Pennsylvania Motor Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final Budget</u>
Net change in fund balances:	<u>\$ (22,187)</u>	<u>\$ (235,008)</u>	(61,821)	<u>\$ 173,187</u>
 Add back reserve for encumbrances			112,616	
Net effect of other income, and expenditure accruals			<u>3,412</u>	
 Net change in fund balances			54,207	
 FUND BALANCES, BEGINNING OF YEAR			<u>597,681</u>	
 FUND BALANCES, END OF YEAR			<u>\$ 651,888</u>	

Statement consists of both facing pages

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.

For the year ended December 31, 2006, for all legally budgeted funds, budgetary expenditures did not exceed appropriations.

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CITY OF ALLENTOWN, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
FOR THE YEAR ENDED DECEMBER 31, 2006

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 %

CITY OF ALLENTOWN, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
FOR THE YEAR ENDED DECEMBER 31, 2006

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 %

CITY OF ALLENTOWN, PENNSYLVANIA

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF EMPLOYER'S CONTRIBUTIONS
FOR THE SIX YEARS ENDED DECEMBER 31, 2006**

City of Allentown Plans

Year Ended	Officers and Employees		Policemen		Firemen		Pennsylvania Municipal Retirement System	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contribution
December 31, 2001	-	N/A	927,478	100 %	-	N/A %	1,184,416	100 %
December 31, 2002	-	N/A	1,193,784	100 %	187,918	100 %	1,196,266	100 %
December 31, 2003	-	N/A	1,244,249	100 %	419,298	100 %	1,271,102	100 %
December 31, 2004	-	N/A	2,576,421	100 %	933,502	100 %	345,520	100 %
December 31, 2005	-	N/A	2,812,373	100 %	1,018,632	100 %	358,968	100 %
December 31, 2006	-	N/A	3,010,528	100 %	1,241,367	100 %	446,843	100 %

**CITY OF ALLENTOWN, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
POLICEMEN, FIREMEN AND OFFICERS AND EMPLOYEES PENSION FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

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CITY OF ALLENTOWN, PENNSYLVANIA

COMPONENT UNITS
COMBINING STATEMENTS OF NET ASSETS
DECEMBER 31, 2008

	Allentown Redevelopment Authority	AEDC	Allentown Parking Authority	Totals
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and cash equivalents	\$ 119,671	\$ 540,972	\$ 1,787,959	\$ 2,448,602
Cash and cash equivalents - restricted	-	984,705	-	984,705
Cash and cash equivalents - designated	-	629,903	-	629,903
Investments, certificates of deposits	-	-	488,000	488,000
Accounts receivable	87,833	-	139,119	226,952
Accrued interest receivable	-	-	5,063	5,063
Inventory	-	-	16,001	16,001
Prepaid expenses	-	-	273,519	273,519
Due from other governments	18,395	-	-	18,395
Notes receivable, current maturities	-	214,664	-	214,664
Miscellaneous receivables and prepayments	-	1,210,242	-	1,210,242
Total current assets	225,899	3,580,486	2,709,661	6,516,046
RESTRICTED ASSETS				
Cash and cash equivalents	-	-	3,769,089	3,769,089
Investments, certificates of deposit	-	-	5,018,000	5,018,000
Accrued interest	-	-	14,394	14,394
Total restricted assets	-	-	8,801,483	8,801,483
CAPITAL ASSETS, net of accumulated depreciation	367,257	12,919,228	24,667,509	37,953,994
DEFERRED CHARGES, net of accumulated amortization	-	-	362,497	362,497
OTHER ASSETS	-	1,281,126	1,022	1,282,148
TOTAL ASSETS	<u>\$ 593,156</u>	<u>\$ 17,780,840</u>	<u>\$ 36,542,172</u>	<u>\$ 54,916,168</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES:				
Accounts payable	\$ 7,237	\$ 137,903	\$ 374,104	\$ 519,244
Mortgage and note payable	-	77,742	340,853	418,595
Accrued expenses	-	-	248,528	248,528
Bonds payable	-	-	1,229,114	1,229,114
Other current liabilities	11,158	118,726	112,511	242,395
Total current liabilities	18,395	334,371	2,305,110	2,657,876
RESTRICTED LIABILITIES:				
Accounts payable	-	-	1,873,860	1,873,860
NONCURRENT LIABILITIES:				
Deferred revenue	9,026	200,000	-	209,026
Mortgage and note payable	-	3,851,973	-	3,851,973
Bonds payable	-	-	18,575,350	18,575,350
Total noncurrent liabilities	9,026	4,051,973	18,575,350	22,636,349
Total liabilities	27,421	4,386,344	22,754,320	27,168,085
NET ASSETS:				
Invested in capital assets net of related debt	367,257	8,989,513	11,449,815	20,806,585
Unrestricted net assets	198,478	4,404,983	2,338,037	6,941,498
Total net assets	565,735	13,394,496	13,787,852	27,748,083
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 593,156</u>	<u>\$ 17,780,840</u>	<u>\$ 36,542,172</u>	<u>\$ 54,916,168</u>

CITY OF ALLENTOWN, PENNSYLVANIA

**COMPONENT UNITS
COMBINING STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
DECEMBER 31, 2008**

	Allentown Redevelopment Authority	AEDC	Allentown Parking Authority	Totals
SUPPORT AND OPERATING REVENUE				
Charges for services				
Parking fees	\$ -	\$ -	\$ 5,124,710	\$ 5,124,710
Rental income	-	938,083	-	938,083
Fees and service charges	-	1,620	-	1,620
Management fee income	-	45,000	-	45,000
Professional services	-	16,300	-	16,300
Membership dues	-	8,000	-	8,000
Contributions and grants	-	31,489	-	31,489
Intergovernmental revenue	377,242	958,022	-	1,333,264
Total support and operating revenue	377,242	1,996,514	5,124,710	7,498,466
OPERATING EXPENSES:				
Administrative services and related costs	-	326,859	-	326,859
Advertising, promotion and marketing	-	8,075	-	8,075
Bad debt	-	34,125	-	34,125
City grant programs	-	205,114	-	205,114
City funding return to CDBG program	-	8,722	-	8,722
Depreciation and amortization	-	254,267	723,161	977,428
Dues and subscriptions	-	1,417	-	1,417
Insurance	-	70,200	-	70,200
Loan packaging	-	228	-	228
Materials and supplies	-	-	60,281	60,281
Office supplies and related expenses	-	17,059	-	17,059
Professional fees	-	70,702	-	70,702
Program expenses	-	3,874	-	3,874
Real estate and other taxes	-	52,716	-	52,716
Rent	-	640	-	640
Repair, maintenance and miscellaneous	-	82,462	-	82,462
Telephone and utilities	-	176,907	-	176,907
Trade associations	-	1,290	-	1,290
Training and professional development	-	2,613	-	2,613
Travel and meetings	-	7,146	-	7,146
Services and charges	-	-	538,114	538,114
Wages and benefits	472,237	-	1,992,935	2,465,172
Total operating expense	472,237	1,324,416	3,314,491	5,111,144
NET OPERATING REVENUE (EXPENSE)	(94,995)	672,098	1,810,219	2,387,322
NONOPERATING REVENUE (EXPENSE):				
Investment income	8,258	97,107	677,018	782,383
Interest expense	-	(237,552)	(336,098)	(573,650)
Gain (Loss) on disposal of assets	-	(173,718)	45,899	(127,819)
Miscellaneous	-	2,925	22,406	25,331
Total nonoperating revenue (expense)	8,258	(311,238)	409,225	106,245
Income before contributions	(86,737)	360,860	2,219,444	2,493,567
CAPITAL CONTRIBUTIONS				
Capital contributions	-	-	5,062,694	5,062,694
Contributions to City of Allentown	-	-	(8,436)	(8,436)
CHANGE IN NET ASSETS	(86,737)	360,860	7,273,702	7,547,825
NET ASSETS, BEGINNING OF YEAR	652,472	13,033,636	6,514,150	20,200,258
NET ASSETS, END OF YEAR	\$ 565,735	\$ 13,394,496	\$ 13,787,852	\$ 27,748,083

CITY OF ALLENTOWN, PENNSYLVANIA

COMPONENT UNITS
 COMBINING STATEMENTS OF CASH FLOWS
 DECEMBER 31, 2006

	Allentown Redevelopment Authority	AEDC	Allentown Parking Authority	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ -	\$ 1,140,524	\$ 5,155,283	\$ 6,295,807
Intergovernmental revenues	376,930	532,916	-	909,846
Payments to employees	-	(326,859)	(2,069,131)	(2,395,990)
Payments to suppliers	(472,415)	(1,442,727)	(585,929)	(2,501,071)
Net cash provided by operating activities	(95,485)	(96,146)	2,500,223	2,308,592
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Advance to/from other funds	3,017	-	-	3,017
Contributions to City of Allentown	-	-	(8,436)	(8,436)
Net cash used in noncapital financing activities	3,017	-	(8,436)	(5,419)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	-	(16,733)	(10,047,505)	(10,064,238)
Proceeds from sale of capital assets	-	-	188,328	188,328
Additions to project development projects	-	(715,179)	-	(715,179)
Capital contributions	-	-	5,065,435	5,065,435
Principal payments on notes and bonds payable	-	(202,709)	(1,265,000)	(1,467,709)
Principal payments on capital lease obligations	-	-	(7,079)	(7,079)
Proceeds from bonds payable	-	261,950	-	261,950
Interest paid	-	-	(276,510)	(276,510)
Trustee fees	-	-	(9,718)	(9,718)
Net cash used in capital and related financing activities	-	(672,671)	(6,352,049)	(7,024,720)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Maturities of certificates of deposit	-	-	34,672,000	34,672,000
Purchase of certificates of deposit	-	-	(28,744,000)	(28,744,000)
Investment income	8,258	-	701,920	710,178
Realty income	-	-	31,874	31,874
Net cash provided by investing activities	8,258	-	6,661,794	6,670,052
NET DECREASE IN CASH AND CASH EQUIVALENTS	(84,210)	(768,817)	2,801,532	1,948,505
CASH AND CASH EQUIVALENTS, BEGINNING	203,881	2,924,397	2,755,516	5,883,794
CASH AND CASH EQUIVALENTS, ENDING	119,671	2,155,580	5,557,048	7,832,299
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	(94,995)	360,860	1,810,219	2,076,084
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	-	254,267	723,161	977,428
Bad debts	-	34,125	-	34,125
Loss on sale and writedown of assets	-	173,718	-	173,718
Change in assets and liabilities:				
Accounts and notes receivable	(312)	(770,700)	(42,288)	(813,300)
Inventory	-	-	(4,183)	(4,183)
Prepaid expenses	-	-	(109,553)	(109,553)
Accounts payable and accrued expenses	(3,017)	(132,405)	110,578	(24,844)
Other liabilities	2,839	(16,011)	12,289	(883)
Net cash provided by operating activities	\$ (95,485)	\$ (96,146)	\$ 2,500,223	\$ 2,308,592

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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, 2006

	Capital Projects			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:				
Capital Contributions	\$ -	\$ -	\$ 400,000	\$ 400,000
Charges for services	-	-	203,298	203,298
Intergovernmental revenues	8,144,160	8,144,160	2,134,474	(6,009,686)
Other	500,000	500,000	86,775	(413,225)
Total revenues	<u>8,644,160</u>	<u>8,644,160</u>	<u>2,824,547</u>	<u>(5,819,613)</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Capital outlay	49,199,693	49,228,355	10,603,514	38,624,841
Debt service-principal	-	-	-	-
Debt service-interest	-	-	-	-
Total expenditures	<u>49,199,693</u>	<u>49,228,355</u>	<u>10,603,514</u>	<u>38,624,841</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(40,555,533)</u>	<u>(40,584,195)</u>	<u>(7,778,967)</u>	<u>32,805,228</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers-out	-	-	-	-
Operating transfers-in	545,750	1,740,750	1,740,750	-
Bond Issue Proceeds	6,595,500	6,595,500	-	(6,595,500)
Total other financing sources (uses), net	<u>7,141,250</u>	<u>8,336,250</u>	<u>1,740,750</u>	<u>(6,595,500)</u>
Net change in fund balances	<u>\$ (33,414,283)</u>	<u>\$ (32,247,945)</u>	<u>(6,038,217)</u>	<u>\$ 26,209,728</u>
Add back reserve for encumbrances			3,567,768	
Net effect of other income, and expenditure accruals			<u>529,432</u>	
Net change in fund balances			<u>(1,941,017)</u>	
FUND BALANCES , BEGINNING OF YEAR			<u>3,360,267</u>	
FUND BALANCES , END OF YEAR			<u>\$ 1,419,250</u>	

Schedule consists of both facing pages

Debt Service		
Original and Final Budget	Actual	Variance
-	-	-
\$ 22,500	\$ 14,930	\$ 7,570
-	-	-
2,725,000	2,784,432	(59,432)
3,890,858	3,894,144	(3,286)
6,638,358	6,693,506	(55,148)
(6,638,358)	(6,693,506)	55,148
-	-	-
6,638,358	6,693,506	(55,148)
-	-	-
6,638,358	6,693,506	(55,148)
\$ -	-	\$ -
-	-	-
-	-	-
\$ -	-	-

CITY OF ALLENTOWN, PENNSYLVANIA

**COMBINING SCHEDULES OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
EARNED INCOME TAX ESCROW:				
Assets:				
Cash and cash equivalents	\$ 3,475,446	\$ 31,195,950	\$ 30,777,466	\$ 3,893,930
Due from other funds	-	121,652	121,652	-
Total assets	\$ 3,475,446	\$ 31,317,602	\$ 30,899,118	\$ 3,893,930
Liabilities:				
Due to other funds	\$ -	\$ 1,594,904	\$ 1,594,904	\$ -
Due to other governments	3,475,446	29,722,698	29,304,214	3,893,930
Total liabilities	\$ 3,475,446	\$ 31,317,602	\$ 30,899,118	\$ 3,893,930
PAYROLL WITHHOLDING FUNDS:				
Cash and cash equivalents	\$ 1,004,941	\$ 13,867,091	\$ 13,755,732	\$ 1,116,300
Total assets	\$ 1,004,941	\$ 13,867,091	\$ 13,755,732	\$ 1,116,300
Liabilities:				
Payroll tax liability	\$ 1,004,941	\$ 13,601,527	\$ 13,490,168	\$ 1,116,300
Due to other funds	-	265,564	265,564	-
Total liabilities	\$ 1,004,941	\$ 13,867,091	\$ 13,755,732	\$ 1,116,300
TAX COLLECTION FUND:				
Cash and cash equivalents	\$ 4,448,325	\$ 93,892,916	\$ 96,417,786	\$ 1,923,455
Total assets	\$ 4,448,325	\$ 93,892,916	\$ 96,417,786	\$ 1,923,455
Liabilities:				
Due to other funds	\$ -	\$ 25,380,366	\$ 25,380,366	\$ -
Due to other governments	4,448,325	68,512,550	71,037,420	1,923,455
Total liabilities	\$ 4,448,325	\$ 93,892,916	\$ 96,417,786	\$ 1,923,455
TOTAL ALL AGENCY FUNDS:				
Assets:				
Cash and cash equivalents	\$ 8,928,712	\$ 138,955,957	\$ 140,950,984	\$ 6,933,685
Due from other funds	-	121,652	121,652	-
Total assets	\$ 8,928,712	\$ 139,077,609	\$ 141,072,636	\$ 6,933,685
Liabilities:				
Payroll tax liability	\$ 1,004,941	\$ 13,601,527	\$ 13,490,168	\$ 1,116,300
Due to other funds	-	27,240,834	27,240,834	-
Due to other governments	7,923,771	98,235,248	100,341,634	5,817,385
Total liabilities	\$ 8,928,712	\$ 139,077,609	\$ 141,072,636	\$ 6,933,685

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 1

**Net Assets by Component
Last Four Years
(accrual basis of accounting)**

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities				
Invested in capital assets, net of related debt	\$ 31,054,583	\$ 20,907,099	\$ 26,835,473	\$ 20,563,347
Restricted	9,006,858	8,421,791	8,910,203	9,594,133
Unrestricted	(36,797,413)	(39,083,486)	(37,369,388)	(21,666,333)
Total governmental activities net assets	<u>3,264,028</u>	<u>(9,754,596)</u>	<u>(1,623,712)</u>	<u>8,491,147</u>
Business - type activities				
Invested in capital assets, net of related debt	44,536,897	48,253,494	53,403,909	57,148,473
Unrestricted	15,657,853	16,817,214	16,656,539	16,984,799
Total business - type activities net assets	<u>60,194,750</u>	<u>65,070,708</u>	<u>70,060,448</u>	<u>74,133,272</u>
Primary government				
Invested in capital assets, net of related debt	75,591,480	69,160,593	80,239,382	77,711,820
Restricted	9,006,858	8,421,791	8,910,203	9,594,133
Unrestricted	(21,139,560)	(22,266,272)	(20,712,849)	(4,681,534)
Total primary government activities net assets	<u>\$ 63,458,778</u>	<u>\$ 55,316,112</u>	<u>\$ 68,436,736</u>	<u>\$ 82,624,419</u>

Notes:

Information is provided for years after adoption of GASB34

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 2

**Changes in Net Assets
Last Four Years
(accrual basis of accounting)**

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental Activities:				
General government	\$ 5,900,215	\$ 6,645,606	\$ 8,363,679	\$ 11,591,907
Public Safety	34,579,587	36,982,770	37,329,606	35,746,269
Community Development	6,720,749	8,911,593	8,240,887	8,687,031
Public Works	11,008,262	10,605,482	11,113,362	11,363,182
Health and sanitation	3,762,726	3,461,871	3,375,154	4,450,785
Parks and recreation	2,445,365	2,376,253	3,071,350	3,392,513
Other	4,250,164	9,498,938	339,076	1,141,913
Interest on long-term debt	5,173,199	3,115,775	3,940,612	3,996,208
Total Governmental Activities expenses	<u>73,840,267</u>	<u>81,598,288</u>	<u>75,773,726</u>	<u>80,369,808</u>
Business - type activities:				
Water fund	10,203,261	9,959,147	10,726,077	10,268,694
Sewer fund	10,179,095	11,422,394	11,898,997	12,376,807
Municipal golf course	611,666	925,727	851,582	735,697
Solid waste fund	9,213,705	9,316,884	9,417,855	9,530,362
Total business - type activities expenses	<u>30,207,727</u>	<u>31,624,152</u>	<u>32,894,511</u>	<u>32,911,560</u>
Total primary government expenses	<u>\$ 104,047,994</u>	<u>\$ 113,222,440</u>	<u>\$ 108,668,237</u>	<u>\$ 113,281,368</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 907,740	\$ 1,031,734	\$ 1,097,664	\$ 1,169,888
Public Safety	4,495,190	4,582,892	4,710,383	5,792,822
Community Development	1,234,606	1,505,949	1,575,685	1,560,786
Public Works	407,523	623,799	454,628	941,958
Health and sanitation	181,465	155,087	151,448	181,677
Parks and recreation	395,833	378,200	335,559	327,358
Other	-	-	2,866,112	5,187,455
Interest on long-term debt	-	-	-	-
Operating grants and contributions	9,492,085	7,703,267	11,592,544	12,512,597
Capital grants and contributions	328,928	1,779,448	2,845,673	2,232,405
Total governmental activities program revenues	<u>17,443,370</u>	<u>17,760,376</u>	<u>25,629,696</u>	<u>29,906,946</u>
Business - type activities:				
Charges for services:				
Water fund	14,831,266	14,169,008	14,380,000	14,639,594
Sewer fund	15,142,783	14,365,042	17,052,181	16,104,610
Municipal golf course	839,995	945,130	950,416	1,067,497
Solid waste fund	8,595,850	8,701,576	8,884,440	8,830,880
Operating grants and contributions	1,600,757	1,571,561	1,025,750	808,377
Capital grants and contributions	-	-	152,000	-
Total business-type activities program revenues	<u>41,010,651</u>	<u>39,752,317</u>	<u>42,444,787</u>	<u>41,450,958</u>
Total primary government program revenues	<u>\$ 58,454,021</u>	<u>\$ 57,512,693</u>	<u>\$ 68,074,483</u>	<u>\$ 71,357,904</u>
Net (expense)/revenue:				
Governmental activities	\$ (56,396,897)	\$ (63,837,912)	\$ (50,144,030)	\$ (50,462,862)
Business - type activities	10,802,924	8,128,165	9,550,276	8,539,398
Total primary government net expense	<u>\$ (45,593,973)</u>	<u>\$ (55,709,747)</u>	<u>\$ (40,593,754)</u>	<u>\$ (41,923,464)</u>

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 2

**Changes in Net Assets
Last Four Years
(accrual basis of accounting)**

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Revenue and Other Changes in Net Assets				
Governmental activities:				
Taxes				
Property taxes and other taxes	\$ 40,167,520	\$ 40,058,771	\$ 46,918,139	48,512,216
Grants and charges not restricted to specific programs	6,939,484	6,833,526	6,065,052	6,146,246
Unrestricted investment earnings	403,808	499,128	596,402	973,003
Transfers	3,461,374	3,427,863	4,671,851	4,946,256
Total governmental activities	<u>50,972,186</u>	<u>50,819,288</u>	<u>58,251,444</u>	<u>60,577,721</u>
Business - type activities:				
Investment earnings	277,106	175,656	111,315	479,682
Transfers	(3,461,374)	(3,427,863)	(4,671,851)	(4,946,256)
Total business - type activities	<u>(3,184,268)</u>	<u>(3,252,207)</u>	<u>(4,560,536)</u>	<u>(4,466,574)</u>
Total primary government	<u>\$ 47,787,918</u>	<u>\$ 47,567,081</u>	<u>\$ 53,690,908</u>	<u>\$ 56,111,147</u>
Change in Net Assets				
Governmental activities	\$ (5,424,711)	\$ (13,018,624)	\$ 8,107,414	\$ 10,114,859
Business - type activities	7,618,656	4,875,958	4,989,740	4,072,824
Total primary governments	<u>\$ 2,193,945</u>	<u>\$ (8,142,666)</u>	<u>\$ 13,097,154</u>	<u>\$ 14,187,683</u>

Notes:

Information is provided for years after adoption of GASB34

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 3

Governmental Activities Tax Revenues By Source
Last Ten Years
(accrual basis of accounting)

<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>
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	40,167,520	24,343,349	6,277,135	6,207,494	3,339,542
2004	40,058,771	24,310,225	6,620,027	6,052,939	3,075,580
2005	46,918,139	29,437,515	7,091,890	5,987,283	4,401,451
2006	48,512,216	29,777,503	7,173,393	6,376,629	5,184,691

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 4

**Fund Balances of Governmental Funds
Last Ten Years
(modified accrual basis of accounting)**

	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund										
Reserved	\$ 149,030	\$ 627,445	\$ 318,728	\$ 152,875	\$ 712,528	\$ 1,519,207	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>7,268,659</u>	<u>7,274,808</u>	<u>6,123,138</u>	<u>7,447,764</u>	<u>7,199,378</u>	<u>1,993,162</u>	<u>\$ (1,351,217)</u>	<u>\$ (3,312,208)</u>	<u>\$ (2,711,620)</u>	<u>\$ 9,128,441</u>
Total general fund	<u>7,417,689</u>	<u>7,902,253</u>	<u>6,441,866</u>	<u>7,600,639</u>	<u>7,911,906</u>	<u>3,512,369</u>	<u>(1,351,217)</u>	<u>(3,312,208)</u>	<u>(2,711,620)</u>	<u>9,128,441</u>
 All other governmental funds										
Reserved	13,634,879	11,172,091	12,150,892	9,452,042	9,976,408	12,360,497	18,674,685	15,071,930	12,275,288	11,014,501
Unreserved, reported in:										
Special revenue funds	11,836	157,598	22,283	62,249	69,702	168,292	-	-	-	-
Capital projects funds	<u>42,178</u>	<u>1,840,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,061,437)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total all other governmental funds	<u>13,688,893</u>	<u>13,170,114</u>	<u>12,173,175</u>	<u>9,514,291</u>	<u>10,046,110</u>	<u>11,467,352</u>	<u>18,674,685</u>	<u>15,071,930</u>	<u>12,275,288</u>	<u>11,014,501</u>
 TOTAL	<u>\$ 21,106,582</u>	<u>\$ 21,072,367</u>	<u>\$ 18,615,041</u>	<u>\$ 17,114,930</u>	<u>\$ 17,958,016</u>	<u>\$ 14,979,721</u>	<u>\$ 17,323,468</u>	<u>\$ 11,759,722</u>	<u>\$ 9,563,668</u>	<u>\$ 20,142,942</u>

Notes:

Prior to 2003, the Trexler Fund was recorded as an expendable trust. Since 2003, it has been included in Reserved Funds.

CITY OF ALLENTOWN, PENNSYLVANIA

**Changes in Fund Balances of Governmental Funds
Last Ten Years
(modified accrual basis of accounting)**

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes	\$ 31,701,811	\$ 31,685,398	\$ 33,471,906	\$ 35,762,476	\$ 36,350,126	\$ 36,314,207	\$ 38,926,651	\$ 39,413,259	\$ 45,635,035	\$ 47,342,430
Licenses and permits	1,769,371	2,221,622	2,191,454	2,094,929	2,438,559	2,543,809	2,805,947	3,226,492	3,062,847	3,248,191
Charges for services	5,410,637	5,614,718	5,754,199	5,988,629	5,957,518	3,151,332	4,442,950	5,674,904	4,897,309	4,612,567
Fines and forfeits	522,702	574,680	564,216	652,050	589,014	548,383	735,416	701,001	555,898	578,363
Investment earnings	1,585,664	1,488,445	1,294,620	1,605,494	1,184,017	1,049,163	403,808	573,184	497,787	961,195
Intergovernmental revenues	8,425,721	8,083,459	8,739,852	8,769,881	9,859,158	16,090,792	15,093,944	14,946,143	18,944,800	19,846,232
Other	2,680,911	3,704,666	3,899,425	4,264,020	3,466,845	4,924,515	2,398,988	2,205,131	2,091,724	4,131,305
Total revenues	52,096,817	53,372,988	55,915,672	59,137,479	59,845,237	64,622,201	64,807,704	66,740,114	75,685,400	80,720,283
Expenditures										
General government	7,518,182	7,358,780	7,952,710	7,505,224	8,427,623	3,096,579	5,654,308	6,025,189	8,350,112	11,112,672
Public safety	24,878,196	26,998,994	28,075,143	29,748,340	31,130,814	34,285,980	32,869,199	35,623,754	36,144,138	34,632,057
Community development	2,877,682	2,797,384	4,782,716	4,061,590	3,931,950	5,332,381	6,638,437	8,816,554	8,159,802	8,614,385
Public works	5,942,877	6,104,387	6,191,844	6,108,815	6,321,047	7,727,514	8,879,470	8,432,129	8,952,519	9,267,279
Health and sanitation	3,481,320	3,623,400	3,674,098	3,774,743	4,250,052	5,186,895	3,492,039	3,401,766	3,322,865	4,402,484
Parks and recreation	2,346,841	2,466,244	2,476,498	2,474,427	2,536,419	1,625,743	1,877,648	1,497,280	2,323,552	2,734,768
Debt service:										-
Principal	2,450,000	2,705,000	4,335,000	4,585,000	5,000,000	5,910,000	5,955,000	4,300,000	4,630,000	5,134,432
Interest	4,434,891	4,637,760	4,687,356	4,743,519	4,725,143	4,556,516	4,456,400	2,553,329	3,971,511	3,894,144
Capital outlay	8,589,744	16,497,605	12,191,020	10,513,757	9,492,137	5,660,189	6,534,655	9,031,443	6,765,457	7,245,177
Payment of loan issuance costs	-	-	-	-	-	-	170,385	932,830	-	251,525
Total expenditures	62,519,733	73,189,554	74,366,385	73,515,415	75,815,185	73,381,797	76,527,541	80,614,274	82,619,956	87,288,923
Excess of Revenues Over (under) expenditures	(10,422,916)	(19,816,566)	(18,450,713)	(14,377,936)	(15,969,948)	(8,759,596)	(11,719,837)	(13,874,160)	(6,934,556)	(6,568,640)
Other Financing Sources (uses):										
Proceeds from long term debt	-	-	-	-	-	-	-	-	-	12,053,400
Issuance of refunding bonds	-	-	-	-	-	-	8,971,562	57,621,949	-	-
Issuance of bonds	4,850,000	11,239,124	6,741,690	8,096,722	7,104,784	-	9,939,499	7,103,888	-	-
Payment to refunded bonds escrow agent	-	-	-	-	-	-	(8,911,809)	(60,293,007)	-	-
Transfers in	8,605,228	9,272,827	10,929,261	11,466,619	11,929,335	(10,065,751)	16,053,898	9,979,882	12,726,232	14,405,814
Transfers out	(9,955,181)	(5,624,147)	(6,581,655)	(6,942,483)	(7,039,239)	14,849,646	(12,549,343)	(6,508,838)	(8,011,200)	(9,416,378)
Capital lease obligations	-	-	-	-	-	997,406	559,778	406,540	-	105,077
Total other financing sources and uses	3,500,047	14,887,804	11,089,296	12,620,858	11,994,880	5,781,301	14,063,585	8,310,414	4,715,032	17,147,913
Net change in fund balances	\$ (6,922,869)	\$ (4,928,762)	\$ (7,361,417)	\$ (1,757,078)	\$ (3,975,068)	\$ (2,978,295)	\$ 2,343,748	\$ (5,563,746)	\$ (2,219,524)	\$ 10,579,273
Debt service as a percentage of noncapital expenditures	12.4%	11.2%	13.8%	14.5%	14.7%	16.6%	15.7%	9.3%	11.6%	11.5%

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 6

Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Years

Fiscal Year Ended December 31	Real Property					Total Taxable Assessed Value	Tax Exempt Real Property	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value (1)
	Residential Property	Commercial Property	Multi-Family Property	Combination Property	Vacant Lots					
1997	\$ 971,419,100	\$ 355,984,150	\$ 229,229,650	\$ 55,170,450	\$ 15,511,400	\$ 1,627,314,750	\$ 416,655,450	L - 16.77 I - 11.25	\$3,254,629,500	50%
1998	975,080,400	355,661,200	225,954,900	54,543,550	15,289,950	1,626,530,000	416,323,150	L - 21.23 I - 10.31	3,253,060,000	50%
1999	979,154,250	354,684,500	222,893,250	53,798,000	16,129,600	1,626,659,600	420,827,750	L - 25.76 I - 9.33	3,253,319,200	50%
2000	989,697,750	351,249,500	221,999,250	53,549,650	16,153,050	1,632,649,200	413,700,500	L - 32.77 I - 9.05	3,265,298,400	50%
2001	999,322,550	351,892,550	221,989,800	53,503,650	15,869,600	1,642,578,150	416,363,400	L - 37.49 I - 7.98	3,285,156,300	50%
2002	1,006,473,450	355,698,650	222,262,450	54,074,200	15,174,000	1,653,682,750	414,514,750	L - 36.21 I - 7.71	3,307,365,500	50%
2003	1,010,110,220	379,636,300	223,499,950	52,664,950	15,259,550	1,681,170,970	420,408,200	L - 41.95 I - 8.93	3,362,341,940	50%
2004	1,021,530,450	374,465,250	223,492,850	53,293,100	14,601,500	1,687,383,150	424,079,700	L - 41.95 I - 8.93	3,374,766,300	50%
2005	1,032,293,650	370,311,000	224,461,600	53,539,900	14,705,450	1,695,311,600	428,009,300	L - 50.40 I - 10.723	3,390,623,200	50%
2006	1,037,145,800	361,532,150	227,440,000	53,261,600	22,297,350	1,701,676,900	426,922,950	L - 50.38 I - 10.72	3,403,353,800	50%

Note:

The city assesses property at approximately to percent of actual value for all types of real property. Estimated actual value is calculated by dividing total assessed value (does not include tax exempt real property) by 50 percent.

L - land millage

I - improvement millage

(1) Calculation does not include tax exempt property.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 7

**Property Tax Rates
Direct and Overlapping Governments
Last Ten Years**

<u>Fiscal Year</u>	<u>Allentown City Total City Millage</u>	<u>Overlapping Rates</u>		<u>Total Direct & Overlapping Rates</u>
		<u>School District</u>	<u>County</u>	
		<u>Total School Millage</u>	<u>Total County Millage</u>	
1997	12.22	31.270	7.31	38.58
1998	12.22	31.270	7.31	38.58
1999	12.22	31.270	7.31	38.58
2000	13.22	31.270	7.31	38.58
2001	13.22	33.311	7.31	40.62
2002	12.72	34.194	7.31	54.22
2003	14.72	37.490	12.39	49.88
2004	14.72	39.490	10.75	50.24
2005	17.52	41.734	10.75	70.00
2006	17.53 (1)	42.942	10.25	70.71

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.

Tax rate is mills per dollar (\$1) of assessment.

(1) 17.53 is the base on which the land value tax is calculated (50.38 - land and 10.720 - improvements).

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 8

Principal Property Taxpayers
Current Year and Nine Years Ago

<u>Taxpayer</u>	<u>2006</u>			<u>1997</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total taxable Assessed Valuation</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total taxable Assessed Valuation</u>
Plaza at 835 E Hamilton Street LP	\$ 21,570,550	1	1.26%			
Agere Systems Inc. (1997-Lucent Technologies)	9,845,650	2	0.58%	\$ 14,152,700	1	0.87%
The Morning Call	7,098,250	3	0.42%	7,158,400	3	0.44%
Home Properties Trexler Park LLC (1997-Gateside-Trexler Co.)	6,936,550	4	0.41%	4,589,150	9	0.28%
Congress Associates (1997-Congress Associates/South Mountain Assoc. DePaul Realty)	6,575,850	5	0.39%	9,574,250	2	0.58%
Mark Trucks Inc.	5,962,700	6	0.35%	6,230,900	4	0.38%
The Lakes	5,961,050	7	0.35%	5,961,050	5	0.36%
Morris Allentown Associates LP	5,753,700	8	0.34%			
Lehigh Valley Hospital Inc.	5,372,750	9	0.31%			
230 Riverbend Apartments LLC	<u>5,304,000</u>	10	<u>0.31%</u>			
Total	<u>\$ 80,381,050</u>		<u>4.72%</u>	<u>\$ 47,666,450</u>		<u>2.91%</u>

Source:

City of Allentown Property Tax File

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 9

**Property Tax Levies and Collections
Last Ten Years**

Fiscal Year Ended December 31	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
1997	\$ 20,117,434	\$ 18,682,899	92.9%	n/a	n/a	n/a
1998	20,061,180	18,702,668	93.2%	n/a	n/a	n/a
1999	20,008,280	18,633,201	93.1%	n/a	n/a	n/a
2000	21,460,876	20,149,832	93.9%	n/a	n/a	n/a
2001	22,048,441	20,545,834	93.2%	n/a	n/a	n/a
2002	21,636,395	20,383,118	94.2%	n/a	n/a	n/a
2003	24,343,349	23,330,160	95.8%	\$ 399,103	\$ 23,729,263	97.5%
2004	24,310,225	23,484,481	96.6%	758,464	24,242,945	99.7%
2005	29,437,515	28,315,800	96.2%	743,474	29,059,274	98.7%
2006	29,777,503	28,456,072	95.6%	-	28,456,072	95.6%

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 10

Ratios of Outstanding Debt By Type
Last Ten Years

Fiscal Year	Governmental Activities		Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Capital Leases	Water Bonds	Sewer Bonds	Capital Leases	Other (1)			
1997	\$ 85,300,000	\$ 5,048	\$ 48,949,588	\$ 12,115,000	\$ -	\$ 4,345,000	\$ 150,714,636	61.55%	\$ 1,428
1998	87,015,000	11,721	46,090,000	18,065,000	-	3,960,000	155,141,721	60.39%	1,470
1999	85,715,000	492,578	44,570,000	19,300,000	-	3,585,000	153,662,578	56.95%	1,456
2000	84,810,000	834,428	42,765,000	21,240,000	-	2,995,000	152,644,428	54.31%	1,432
2001	84,000,000	641,261	41,485,000	21,600,000	-	2,630,000	150,356,261	50.21%	1,410
2002	78,505,000	1,336,689	38,235,000	20,000,000	202,870	2,215,000	140,494,559	46.40%	1,318
2003	81,925,000	1,676,681	34,565,000	18,830,000	388,815	1,800,000	139,185,496	44.83%	1,305
2004	89,330,000	1,663,615	32,040,000	17,430,000	3,298,664	1,400,000	145,162,279	45.87%	1,361
2005	85,100,000	1,272,836	27,730,000	15,555,000	2,689,177	1,000,000	133,347,013	41.10%	1,251
2006	92,518,968	1,024,181	23,570,200	14,000,000	2,172,144	500,000	133,785,493	39.57%	1,255

Notes:

(1) CDBG Section 108 HUD Notes, 1997-1999 also includes Special Obligation Refund for 1977 Series.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 11

**Ratios of General Bonded Debt Outstanding
Last Ten Years**

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
1997	\$ 85,300,000	2.62%	\$ 808
1998	87,015,000	2.67%	824
1999	85,715,000	2.63%	812
2000	84,810,000	2.60%	795
2001	84,000,000	2.56%	788
2002	78,505,000	2.37%	736
2003	81,925,000	2.44%	768
2004	89,330,000	2.65%	838
2005	85,100,000	2.51%	798
2006	92,518,968	2.72%	868

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 12

**Direct and Overlapping Governmental Activities Debt
As of December 31, 2006**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Allentown School District	\$ 43,145,058	100.0%	\$ 43,145,058
Lehigh County General Obligation Bonds	111,850,000	20.6%	<u>23,041,100</u>
Subtotal, overlapping debt			66,186,158
City of Allentown Direct Debt (1)			<u>93,018,968</u>
Total direct and overlapping debt			<u><u>\$ 159,205,126</u></u>

Notes:

(1) Leases are not included in the Direct Debt total.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 13

Legal Debt Margin Information
Last Ten Years

	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Debt limit	\$ 155,003,309	\$ 155,955,602	\$ 157,539,113	\$ 163,512,389	\$ 169,156,715	\$ 169,630,780	\$ 171,794,413	\$ 185,516,142	\$ 228,107,156	\$ 237,239,268
Total net debt applicable to limit	<u>51,870,000</u>	<u>53,275,000</u>	<u>52,725,000</u>	<u>52,580,000</u>	<u>52,690,000</u>	<u>48,335,000</u>	<u>52,915,000</u>	<u>53,345,000</u>	<u>49,765,000</u>	<u>57,843,968</u>
Legal debt margin	<u>\$ 103,133,309</u>	<u>\$ 102,680,602</u>	<u>\$ 104,814,113</u>	<u>\$ 110,932,389</u>	<u>\$ 116,466,715</u>	<u>\$ 121,295,780</u>	<u>\$ 118,879,413</u>	<u>\$ 132,171,142</u>	<u>\$ 178,342,156</u>	<u>\$ 179,395,300</u>
Total net debt applicable to the limit as a percentage of debt limit	33.46%	34.16%	33.47%	32.16%	31.15%	28.49%	30.80%	28.75%	21.82%	24.38%

Legal Debt Margin Calculation for Fiscal year 2006

Borrowing base (1)	\$ 67,782,648
Percentage limitation	350%
Net debt limit	237,239,268
Debt applicable to limit:	
General obligation debt	92,518,968
Less: Amount set aside for pension funding liability (2)	<u>(34,675,000)</u>
	<u>57,843,968</u>
	<u>\$ 179,395,300</u>

Notes:

(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 \$34,675,000, which is the outstanding balance of the 2004 GO Bond Issue used to finance The City's pension funding liability as allowed by statute.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 14

Pledged-Revenue Coverage
Last Ten Years

Fiscal Year	Water Revenue Bonds						Sewer Revenue Bonds					
	Water Revenues and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	Sewer Revenues and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
1997	\$ 14,410,455	\$ 7,215,967	\$ 7,194,488	\$ 2,230,000	\$ 2,707,945	1.46	\$ 10,487,645	\$ 9,414,140	\$ 1,073,505	\$ 762,500	\$ 596,811	0.79
1998	13,946,972	7,077,386	6,869,586	2,715,000	2,400,231	1.34	10,150,191	8,805,301	1,344,890	895,000	581,694	0.91
1999	13,270,956	6,982,013	6,288,943	2,935,000	2,170,545	1.23	10,198,259	8,600,508	1,597,751	1,200,000	770,858	0.81
2000	13,571,764	7,567,332	6,004,432	3,135,000	2,213,786	1.12	11,187,682	8,484,754	2,702,928	1,325,000	885,030	1.22
2001	12,504,275	7,632,582	4,871,693	3,310,000	2,042,145	0.91	10,272,891	9,117,327	1,155,564	1,485,000	979,865	0.47
2002	12,576,057	7,875,504	4,700,553	3,385,524	1,820,249	0.90	12,450,614	9,525,592	2,925,022	1,600,000	989,132	1.13
2003	15,086,442	7,909,525	7,176,917	3,932,351	1,636,014	1.29	15,344,641	9,322,780	6,021,861	1,630,000	827,134	2.45
2004	14,360,225	7,775,500	6,584,725	4,191,817	1,509,059	1.16	14,477,827	10,136,126	4,341,701	1,795,000	768,286	1.69
2005	14,476,432	8,746,150	5,730,282	4,310,000	1,343,246	1.01	17,101,556	11,481,279	5,620,277	1,875,000	701,711	2.18
2006	14,821,061	8,714,926	6,106,135	3,996,400	1,193,668	1.18	16,356,010	12,145,808	4,210,202	1,555,000	639,242	1.92

Notes:

Details regarding the City of Allentown's outstanding debt can be found in the notes to the financial statements.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 15

**Demographic and Economic Statistics
Last Ten Years**

Fiscal Year	Population (1)	Personal Income	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rate (4)
1997	105,550	\$ 2,584,497,300	\$ 24,486	15,629	6.4%
1998	105,550	2,711,368,400	25,688	15,629	5.5%
1999	105,550	2,847,844,550	26,981	16,243	4.9%
2000	106,632	2,996,998,992	28,106	16,424	4.2%
2001	106,632	3,192,988,608	29,944	16,174	5.4%
2002	106,632	3,228,816,960	30,280	16,693	7.2%
2003	106,632	3,310,923,600	31,050	16,969	6.3%
2004	106,632	3,374,796,168	31,649	17,521	7.1%
2005	106,632	3,459,888,504	32,447	18,118	6.6%
2006	106,632	3,605,014,656	33,808	18,209	6.4%

Source:

(1) US Department of Commerce, Bureau of the Census

(2) US Department of Commerce, Bureau of Economic Analysis

(3) Allentown School District

(4) US Department of Labor, Bureau of Labor Statistics

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 16

Principal Employers
Current Year and Nine Years Ago

<u>Employer</u>	<u>2006</u>			<u>1997</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Performance Personnel	2,972	1	3.48%			0.00%
Allentown School District	2,826	2	3.31%	2,301	3	2.63%
Mack Trucks Inc.	2,570	3	3.01%	2,293	4	2.62%
Allied Temporary Services	2,393	4	2.80%	2,063	5	2.36%
Muhlenberg College	2,133	5	2.50%			0.00%
Lehigh County & Institutions	2,044	6	2.40%	2,326	2	2.66%
PPL Co.	1,863	7	2.18%	1,687	7	1.93%
Sacred Heart Hospital	1,618	8	1.90%			0.00%
Lehigh Valley Hospital	1,416	9	1.66%	1,538	8	1.76%
H T S S	<u>1,410</u>	10	<u>1.65%</u>	<u>1,408</u>	9	<u>1.61%</u>
	<u>21,245</u>		<u>24.89%</u>	<u>13,616</u>		<u>15.55%</u>

Source:
City of Allentown Earned Income Tax File

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 17

**Full-Time Equivalent Employees By Function
Last Ten Years**

Full-time Equivalent Employees as of December 31										
Function	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General government	75	77	82	84	88	88	88	86	77	82
Public Safety										
Police										
Officers (1)	195	211	218	231	242	254	250	241	196	217
Civilians	17	17	17	18	19	19	20	21	21	23
EMS	13	14	15	18	22	24	24	25	25	26
Fire										
Firefighters and officers	86	87	91	95	99	112	113	114	117	134
Civilians	1	1	1	1	1	1	1	1	1	1
Highways and Streets	53	57	57	57	57	57	53	47	48	59
Sanitation/Recycling	9	9	9	9	9	9	9	9	12	18
Building Maintenance	10	10	10	10	10	10	10	12	14	12
Code Enforcement	28	28	28	28	28	28	26	26	24	30
Culture and Recreation	31	31	31	31	31	31	29	28	30	40
Golf	1	1	1	1	3	3	3	3	3	4
Health	26	29	30	32	35	36	38	38	39	39
Water	54	55	57	57	60	60	62	63	62	69
Sewer	<u>68</u>	<u>68</u>	<u>68</u>	<u>70</u>	<u>71</u>	<u>72</u>	<u>70</u>	<u>78</u>	<u>76</u>	<u>80</u>
Total	667	695	715	742	775	804	796	792	745	834

Notes:

(1) Total also includes E-911 personnel.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 18

Operating Indicators By Function
Last Ten Years

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Law Violations	18,143	17,713	17,032	17,426	17,019	17,418	19,612	18,103	18,336	19,072
Traffic violations	9,109	11,398	13,117	13,707	11,371	12,487	14,397	16,074	11,465	8,744
Fire										
Number of calls answered	4,971	5,202	5,564	5,974	6,036	6,175	6,090	5,889	5,955	6,033
Inspections and investigations	4,095	4,097	3,659	2,864	3,394	3,095	2,754	3,414	2,637	2,284
Highways and Streets										
Street reconstruction (miles)	0.1	0.8	1.6	0.9	1.5	1.2	0.9	0.7	0.0	0.1
Potholes repaired	N/A	N/A	N/A	N/A	22,523	18,755	19,621	17,079	13,909	11,691
Sanitation										
Refuse collected (tons/year)	33,613	35,097	36,825	39,321	40,091	40,642	41,870	43,300	44,476	42,126
Recyclables collected (tons/year)	2,402	2,349	2,417	2,425	2,488	2,646	2,762	7,595	8,355	6,194
Sweep tickets issued (1)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	786	3,604
Health										
Home hazard surveys	291	260	317	353	164	207	305	363	360	243
Food service inspections	1,853	1,967	1,876	1,374	1,259	1,215	1,436	1,560	1,377	1,405
Animal related complaints	1,695	1,729	1,964	1,873	2,053	1,908	1,818	1,582	1,391	1,222
Number of home visits	1,134	1,340	929	505	886	2,493	2,695	2,720	2,412	2,228
Total lead screenings	814	897	912	694	917	836	718	850	857	870
Persons tested & counseled for HIV infection	2,785	2,536	2,330	2,196	2,312	2,478	2,500	2,500	2,268	2,160
Recreation										
Pavilion permits	n/a	n/a	n/a	n/a	n/a	n/a	173	113	178	206
Swimming pool season passes	n/a	n/a	n/a	n/a	238	255	231	196	148	152
Swimming pool patrons (non season pass)	n/a	n/a	n/a	n/a	17,030	24,373	18,485	12,732	17,773	13,395
Water										
Water connection permits	23	23	14	12	12	21	20	25	51	25
Water main breaks	23	40	19	30	22	20	25	25	25	9
Average daily consumption (millions of gallons)	19.4	19.5	18.9	17.7	17.1	16.1	15.5	14.9	15.3	14.5
Wastewater										
Average daily sewage treatment (millions of gallons)	32.00	31.59	31.54	31.21	30.78	29.45	35.38	31.25	31.72	31.16

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 18

Operating Indicators By Function
Last Ten Years

Function	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Golf										
Number of patrons	47,519	30,000	30,000	45,000	50,000	46,831	38,000	40,000	39,900	42,000
Number of days of service	350	200	200	300	350	330	280	310	320	225
E-911										
Number of calls:										
Police	88,306	91,086	91,870	93,092	93,385	95,049	112,202	116,435	107,219	105,196
EMS	8,778	9,179	9,833	10,228	10,814	11,323	11,867	12,073	12,932	12,929
Fire	4,978	5,202	5,564	5,974	6,036	6,175	6,112	5,913	5,969	6,048
Other	4,201	4,104	6,885	7,868	7,674	8,344	10,071	9,582	9,156	8,952

-118- Source:
Various city departments.

Notes:
(1) Sweep ticket program started in May 2005.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 19

Capital Asset Statistics By Function
Last Ten Years

		Fiscal year									
		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Function											
Public Safety											
Police:											
Stations		1	1	1	1	1	1	1	1	1	1
Police officers		207	216	216	216	223	226	237	220	172	190
Patrol units		62	62	62	62	73	89	89	92	86	83
Fire:											
Stations		6	6	6	6	6	6	6	6	6	6
Fire Fighters		146	146	146	146	146	146	146	147	135	140
Sanitation											
Collection Trucks		0	0	0	0	0	2	2	3	3	3
Highways and Streets											
Streets (miles)	(1)	408.5	408.5	408.5	427.5	427.5	427.5	427.5	427.5	427.5	427.5
Streetlights		7,602	7,658	7,689	7,723	7,742	7,751	7,757	7,762	7,761	7,766
Traffic signals		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,622
Recreation											
Parks acreage		2,000	2,000	2,000	2,020	2,020	2,020	2,020	2,020	2,020	2,022
Parks	(2)	16	16	16	16	16	16	32	28	28	29
Swimming pools		5	5	5	5	5	5	5	5	5	5
Playgrounds		9	9	9	10	10	10	10	9	11	11
Water											
Water mains (miles)		270.0	271.8	273.1	273.3	273.3	273.3	300.0	300.0	300.0	300.0
Fire hydrants		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,708
Maximum daily capacity (millions of gallons)		26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0
Sewer											
Sanitary sewers (miles)		292.6	292.9	293.6	295.6	295.8	295.8	293.0	293.0	293.0	293.0
Storm sewers (miles)		189.1	191.1	185.0	185.0	185.0	185.0	185.0	185.0	185.0	185.0
Maximum daily treatment capacity (millions of gallons)		40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Golf											
Number of Courses		1	1	1	1	1	1	1	1	1	1

Source:

Various city departments.

Notes:

(1) In 2000, started also including unpaved alleys.

(2) Until 2002, listed in records as Other Recreational Facilities. Starting 2003, listed as Parks and Other Facilities Maintained.

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**CITY OF ALLENTOWN
FINANCIAL MANAGEMENT POLICIES**

OPERATING MANAGEMENT

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

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

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

CAPITAL AND DEBT MANAGEMENT

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

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

ACCOUNTING, AUDITING AND FINANCIAL PLANNING

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

COMMUNITY NEEDS AND RESOURCES

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

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