

INDEPENDENT AUDITOR'S 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, each major fund and the aggregate remaining fund information of the City of Allentown as of and for the year ended December 31, 2009, which collectively comprise the City of Allentown'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, 2009 and December 31, 2009, respectively, which represent 95%, 91% and 79%, respectively, of the assets, net assets and 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 other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and, except for the Allentown Parking Authority, 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Allentown as of December 31, 2009, 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 25, 2010 on our consideration of the City of Allentown'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 combining statements and schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has 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 25, 2010**

**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, 2009. 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, 2009. 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 2009, the City's total net assets decreased by \$6,841,434. Net assets of governmental activities decreased \$7,251,158 and net assets of business-type activities increased \$409,814. The decrease in the governmental net assets was due to the decline of revenues such as deed transfer and local services tax collections.

Property tax rates remained at 17.52 mills in 2009.

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

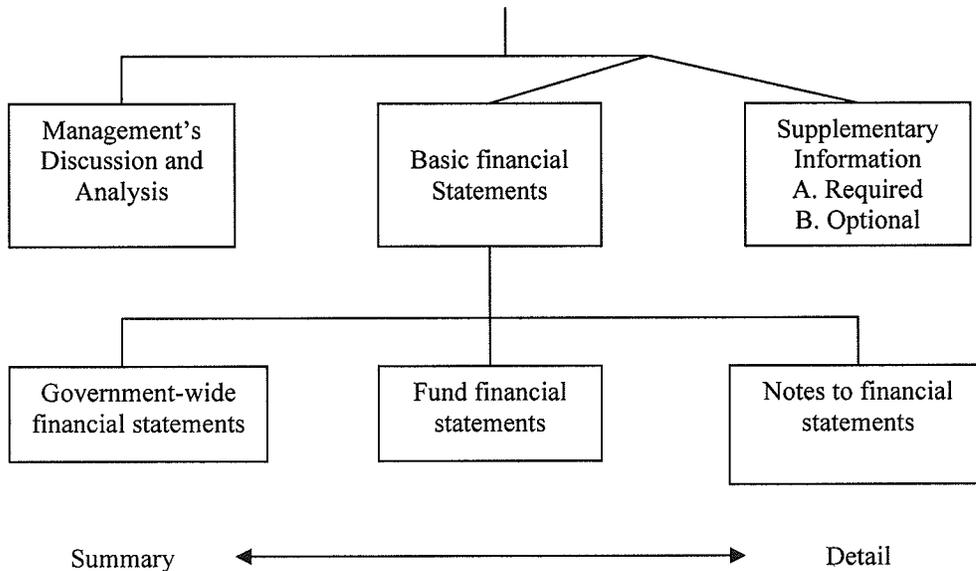
Management's discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand the City government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial 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.

REQUIRED COMPONENTS OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT



City of Allentown, Pennsylvania
Management Discussion and Analysis

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 eight governmental funds that the City maintains (General, Liquid Fuels, 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, liquid fuels, 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 \$223.2 million at December 31, 2009. Of this amount, \$175 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 infrastructures in the 2009 financial statements.

City of Allentown, Pennsylvania
Management Discussion and Analysis

Table A-3: Condensed statement of net assets

	Governmental Activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other Assets	\$ 20,880,595	\$ 26,865,877	\$ 17,965,562	\$ 17,865,652	\$ 38,846,157	\$ 44,731,529
Capital assets, net	84,991,286	83,736,123	90,053,066	92,198,205	175,044,352	175,934,328
Other non-current Assets	7,504,814	8,238,247	1,834,388	2,031,727	9,339,202	10,269,974
Total assets	\$113,376,695	\$118,840,247	\$109,853,016	\$112,095,584	\$223,229,711	\$230,935,831
Current and other Liabilities	\$ 14,033,302	\$ 15,770,468	\$ 8,408,657	\$ 6,940,615	\$ 22,441,959	\$ 22,711,083
Long-term liabilities	97,773,148	94,248,376	23,591,623	27,712,047	121,364,771	121,960,423
Total liabilities	\$111,806,450	\$110,018,844	\$ 32,000,280	\$ 34,652,662	\$143,806,730	\$144,671,506
Net assets:						
Invested in capital assets, net of debt	\$ 19,175,187	\$ 20,127,498	\$ 62,390,291	\$ 60,620,384	\$ 81,565,478	\$ 80,747,882
Restricted net assets	6,172,117	9,304,474			6,172,117	9,304,474
Unrestricted net (deficit) assets	(23,777,059)	(20,610,569)	15,462,445	16,822,538	(8,314,614)	(3,788,031)
Total net (deficit) assets	\$ 1,570,245	\$ 8,821,403	\$ 77,852,736	\$ 77,442,922	\$79,422,891	\$86,264,325

During 2009 net assets decreased \$6.8 million or 8% to \$79.4 million. Of this amount, \$81.6 million represents the net balance of long-term capital assets and long-term debt, while \$6.2 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, 2009. 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	
	2009	2008	2009	2008	2009	2008
Program revenues:						
Charges for services	\$ 17,667,772	\$ 16,146,186	\$ 42,873,321	\$ 44,026,365	\$ 60,541,093	\$ 60,172,551
Operating grants and contributions	11,452,802	17,197,783	397,701	823,762	11,850,503	18,021,545
Capital grants	2,129,468	3,180,479			2,129,468	3,180,479
General revenues:						
Taxes	47,948,307	47,186,003			47,948,307	47,186,003
Investment earnings	223,172	762,789	(3,571)	398,954	219,601	1,161,743
Unrestricted grants/chgs	5,048,294	1,313,230			5,048,294	1,313,230
Total revenues	84,469,815	85,786,470	43,267,451	45,249,081	127,737,266	131,035,551
Expenses:						
General government	14,514,780	14,193,579			14,514,780	14,193,579
Public safety	51,117,977	50,050,802			51,117,977	50,050,802
Community development	12,544,800	12,548,838			12,544,800	12,548,838
Public works	9,353,946	11,874,900			9,353,946	11,874,900
Health and sanitation	2,285,122	3,045,226			2,285,122	3,045,226
Parks and recreation	2,583,320	3,603,363			2,583,320	3,603,363
Interest long-term debt	3,952,622	3,577,271			3,952,622	3,577,271
Water fund			10,932,251	10,663,179	10,932,251	10,663,179
Sewer fund			13,639,529	12,607,533	13,639,529	12,607,533
Municipal golf course			1,076,235	1,078,094	1,076,235	1,078,094
Solid waste fund			12,578,028	12,528,680	12,578,028	12,528,680
Total expenses	96,352,567	98,893,979	38,226,043	36,877,486	134,578,610	135,771,465
Change in net assets Before transfers	(11,882,752)	(13,107,509)	5,041,408	8,371,595	(6,841,384)	(4,735,914)
Transfers	4,631,594	4,369,484	(4,631,594)	(4,369,484)		
Change in net assets	(7,251,158)	(8,738,025)	409,814	4,002,111	(6,841,344)	(4,735,914)
Net assets beginning	8,821,403	17,559,428	77,442,922	73,440,811	86,264,325	91,000,239
Net assets ending	\$ 1,570,245	\$ 8,821,403	\$ 77,852,736	\$ 77,442,922	\$79,422,981	\$86,264,325

Total government-wide revenues of \$127 million came primarily from charges for services of \$60.5 million, representing 47 percent of the total. Taxes at \$47.9 million made up the second largest source at 38 percent, followed by operating and capital grants, and contributions of \$14 million, or 11 percent, and other revenue sources made up the remaining 4 percent.

Total expenses for all programs in 2009 were \$134.6 million. The expenses cover a range of services, with the largest being public safety at \$51.1 million or 38 percent. The second largest

City of Allentown, Pennsylvania
 Management Discussion and Analysis

program area was general government at \$14.5 million or 10.8 percent, followed by the sewer fund at \$13.6 million or 10.1 percent, the solid waste fund at \$12.6 million or 9.4 percent, community development at \$12.5 million or 9.3 percent, the water fund at \$10.9 million or 8.1 percent, public works at \$9.4 million or 7 percent, interest on outstanding debt came to \$4.0 million or 2.9 percent, parks and recreation at \$2.6 million or 1.9 percent, health and sanitation at \$2.3 million or 1.7 percent, and the golf course at \$1.1 million or 0.8 percent.

Net cost of services

Net cost of services expenses indicate the amount of support required from taxes and other general revenues for a program of the government. In 2009, real estate and Act 511 taxes brought in \$47.9 million. There were \$2.1 million in other general revenues and \$4 million of general fund service charges received. Table A-5 depicts the net program expenses for the years ended December 31 2009 and 2008.

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

Program:	Total cost of services		Net cost of services	
	2009	2008	2009	2008
General government	\$14,514,780	\$14,193,579	\$8,541,322	\$8,404,809
Public safety	51,117,977	50,050,802	42,596,012	41,896,266
Community development	12,544,800	12,548,838	5,869,756	186,368
Public works	9,353,946	11,874,900	4,020,114	7,490,152
Health and sanitation	2,285,122	3,045,226	130,798	761,859
Parks and recreation	2,583,320	3,603,363	(8,099)	52,806
Interest on long-term debt	3,952,622	3,577,271	3,952,622	3,577,271
Water fund	10,932,251	10,663,179	(2,314,487)	(3,523,457)
Sewer fund	13,639,529	12,607,533	(1,546,436)	(2,530,525)
Municipal golf course	1,076,235	1,078,094	(224,210)	(204,195)
Solid waste fund	12,578,028	12,528,680	(959,846)	(1,714,464)
Total expenses	\$134,578,610	\$135,771,465	\$ 60,057,546	\$ 54,396,890

The City relied on real estate tax, Act 511 taxes and other general revenues to fund 41.7 percent of its governmental and business-type activities in 2009.

Property taxes and other general revenues covered 58.8 percent of general government spending with the remainder coming from grants and fees for specific services. Nearly 83.3 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 46.8 percent of community development costs, with the remainder coming from fees, charges for service, and the balance from Community Development Block Grant (CDBG) funding.

Public works spending was partially funded through Commonwealth fuel tax revenues, with 43 percent coming from local property taxes and other general revenues. Health and sanitation received all but 5.7percent of its revenue from program revenues, 92.1 percent of which was in

City of Allentown, Pennsylvania
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the form of grants. Parks and recreation expenses were covered 100 percent by program revenues.

Operations of the water fund and sewer fund are almost entirely funded through charges for services. The municipal golf course is almost entirely reliant on fees for services. Solid waste fund expenses were funded at 98 percent through fees for service.

Capital Assets

The City's investment in capital assets at December 31, 2009, net of accumulated depreciation, was \$175 million. Capital assets consist primarily of land, buildings, equipment, and infrastructure. Table A-6 is a summary of capital assets at December 31, 2009 and 2008.

Table A-6: Capital assets at December 31, 2009 and 2008

	Governmental Activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Land and land improvements	\$ 9,099,645	\$ 9,119,896	\$ 3,759,049	\$ 3,759,049	\$ 12,858,694	\$ 12,878,945
Buildings and improvements	32,230,119	31,375,927	35,680,942	36,752,893	67,910,861	68,128,820
Vehicles, machinery and equipment	8,898,751	7,523,418	12,648,681	13,179,211	21,547,432	20,702,629
Distribution and collection systems			37,964,394	38,507,052	37,964,394	38,507,052
Infrastructure	34,762,771	35,716,882			34,762,771	35,716,882
Total	\$ 84,991,286	\$ 83,736,123	\$ 90,053,066	\$ 92,198,205	\$175,044,152	\$175,934,328

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, 2009, the City had \$124.8 million of debt outstanding, including bonds, notes, and capital leases. This was a decrease of \$1.7 million from the previous year. Table A-7 provides a summary of outstanding debt.

City of Allentown, Pennsylvania
Management Discussion and Analysis

Table A-7: Summary of outstanding debt

	Governmental Activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Capital lease	\$ 1,446,353	\$ 1,907,720	\$ 775,575	\$ 1,140,421	\$ 2,221,928	\$ 3,048,141
Bonds and notes	64,369,746	61,700,905	26,887,200	30,437,400	91,256,946	92,138,305
Pension obligation bonds	31,325,000	31,325,000			31,325,000	31,325,000
Total	\$97,141,099	\$94,933,625	\$27,662,775	\$31,577,821	\$124,803,874	\$126,511,446

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, 2009 was approximately \$195.5 million, and the total debt outstanding was \$64.4 million, which is below the legal debt limit. The City's net non-electoral and lease rental debt limit at December 31, 2009 was approximately \$258.2 million and the total debt outstanding was \$26.9 million. For computation purposes, these amounts have been reduced by \$31.3 million which is the outstanding balance of the 2004 GO bond issue used to finance the City's pension funding liability as allowed by statute.

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

Bond rating

In May 2008 Standard & Poor's rating group indicated a positive outlook to the city's bond rating.

GOVERNMENTAL FUNDS

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

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

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

Governmental fund revenues

Governmental fund revenues by source for the years ended December 31, 2009 and December 31, 2008 were as follows. Table A-8 also presents changes from 2008 to 2009.

Table A-8: Revenues by source, governmental funds

	2009	2008	Changes from 2008 to 2009	Percent change
Revenues:				
Taxes	\$47,630,562	\$47,039,202	\$591,360	1.3
Licenses and permits	3,571,616	3,459,268	112,348	3.2
Charges for services	7,155,768	5,864,796	1,290,172	22.0
Fines and forfeits	461,834	592,504	(130,370)	(22.1)
Investment earnings	223,172	758,833	(535,661)	(70.6)
Intergovernmental revenues	20,897,082	24,407,606	(3,510,534)	(14.4)
Other	4,374,132	3,664,260	709,872	19.4
Total revenues	<u>\$84,314,166</u>	<u>\$85,786,469</u>	<u>(\$1,472,303)</u>	<u>(1.7)</u>

Governmental fund revenues totaled \$84.3 million for the year ended December 31, 2009. This is a decrease of \$1.5 million from 2008, primarily due to a decrease in intergovernmental revenues.

Governmental fund expenditures

Governmental fund expenditures by function for the years ended December 31, 2009 and December 31, 2008 were as follows. Table A-9 also presents changes from 2008 to 2009.

Table A-9: Expenditures by function, governmental funds

	2009	2008	Changes from 2008 to 2009	Percent change
Expenses:				
General government	\$ 7,656,616	\$ 7,962,093	(\$ 305,477)	(3.8)
Public safety	49,916,239	47,424,025	2,492,214	5.3
Community development	12,605,261	12,482,112	123,149	1.0
Public works	9,747,558	9,985,082	(237,524)	(2.4)
Health and sanitation	2,648,017	3,005,201	(357,184)	(11.9)
Parks and recreation	2,851,795	3,107,688	(255,893)	(8.2)
Debt service:				
Principal	2,575,600	2,633,800	(58,200)	(2.2)
Interest	3,960,851	3,790,899	169,952	4.5
Capital outlay	5,988,589	10,351,660	(4,363,071)	(42.1)
Payment of bond/loan issue cost	49,786	261,309	(211,523)	(80.9)
Total expenses	<u>\$ 98,000,312</u>	<u>\$ 101,003,869</u>	<u>(\$ 3,003,557)</u>	<u>(3.0)</u>

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 E-911 fund, and the liquid fuels fund, all of which are considered to be major funds.

Governmental fund expenditures totaled \$98 million for the year ended December 31, 2009, a decrease of 3 percent from 2008.

The \$2.5 million increase in public safety 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, 2009 and 2008.

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

	2009		2008	
	Governmental funds	Proprietary funds	Governmental funds	Proprietary funds
General	\$ 4,287,704		\$ 8,205,189	
Liquid Fuels Fund	1,034,480		983,182	
Community Development				
Block Grant	5,137,637		8,321,292	
Trexler	(565,045)		(749,275)	
Capital Projects	4,113,883		1,433,265	
E-911	182,117		(306,625)	
Water fund		\$ 44,819,950		\$ 44,440,868
Sewer fund		23,584,760		23,804,292
Municipal golf course		3,022,938		3,220,302
Solid waste fund		6,425,088		5,977,460
Total	\$14,190,776	\$77,852,736	\$17,887,028	\$77,442,922

The City's governmental funds reported a combined fund balance of \$14.2 million at December 31, 2009. Of the total, \$5.1 million is restricted for CDBG projects and \$4.1 million is restricted for capital projects.

The general fund balance decreased by \$3.9 million. The general fund is the chief operating fund of the City. At December 31, 2009 the total general fund balance was \$4.3 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 decrease in revenues of the local services tax and the slow rebound in the real estate market. The Community Development Block Grant decrease in fund balance is attributed to fewer grant monies received. The E-911 change in fund balance is attributed to the increase of phone line and wireless revenues received. The proprietary fund activity change of \$410 thousand is due to an increase in refuse and recycling collections in the solid waste fund. All governmental and proprietary funds during these economical times have seen a decrease in investment earnings.

Savings in personnel costs were achieved through a delay in filling City positions as they became vacant and workforce reductions.

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 \$2.4 million during the year from the original budget of \$78.8 million to the final budget of \$81.2 million. Actual revenues were \$6.5 million below the final budget. This variance was partly due to the \$3.1 million decrease in total taxes collected. In addition, Intergovernmental revenues were \$3.4 million lower than estimated due to the timing of receipts.

The general fund budget for expenditures increased \$5.8 million during the year from the original budget of \$74.7 million to the final budget of \$80.5 million. Actual expenditures were \$5.6 million lower than the amended budget. This was achieved by acknowledging the decline in revenue and putting general spending restraints in place along with workplace reductions.

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.

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 10-to-15 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 2009, Allentown, like every other municipality, continued to feel the impact of the global recession. Still, substantial progress was made. ICS Penetron International opened its Blend-Pro Inc. subsidiary at the Bridgeworks by the Creek Industrial Condominium facility on S. 10th Street. Blend-Pro joins Eastern Surfaces at the location. The two businesses combine to bring more than 100 new jobs to the city. Work began in 2009 on the \$2.5 million T.C. Salon project on 19th Street. The site opened in late May 2010. H.I.M. On Call made \$200,000 in improvements to its 1033 Hamilton Street building.

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 are being implemented to counter this squeeze.

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 apparel, food, electrical/electronic equipment, industrial machinery and printing and publishing areas are strong components of the overall employment picture. Air Products, Lehigh Portland Cement, Nestle, Olympus and Agere (now LSI) have selected the area as their headquarters or as the location of principal facilities. On the downside, in 2009 Mack Trucks moved its headquarters from Allentown to North Carolina.

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, 2009**

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
CURRENT ASSETS:				
Cash and cash equivalents	\$ 15,644,107	\$ 10,857,753	\$ 26,501,860	\$ 5,642,269
Receivables (net of allowance for uncollectibles):				
Taxes	915,345	-	915,345	-
Loans	-	-	-	930,531
Accounts	1,257,657	8,174,154	9,431,811	-
Grants	1,997,141	-	1,997,141	-
Other current assets	-	-	-	315,935
Internal balances	1,066,345	(1,066,345)	-	-
Total current assets	20,880,595	17,965,562	38,846,157	6,888,735
NONCURRENT ASSETS:				
Capital assets, net:				
Land	8,409,945	3,759,049	12,168,994	9,030,842
Property held for development	689,700	-	689,700	2,168,744
Buildings	6,615,721	18,362,137	24,977,858	19,289,188
Land and building improvements	10,271,760	15,571,927	25,843,687	38,022,260
Machinery and equipment	5,130,640	11,101,236	16,231,876	68,312
Vehicles	3,768,111	1,547,445	5,315,556	1,477,348
Distribution and collection systems	-	37,964,394	37,964,394	-
Construction in progress	15,342,638	1,746,878	17,089,516	521,134
Infrastructure	34,762,771	-	34,762,771	-
Total capital assets, net	84,991,286	90,053,066	175,044,352	70,577,828
Net pension asset	809,383	-	809,383	-
Loans receivable	4,460,415	-	4,460,415	-
Other assets	2,235,016	1,834,388	4,069,404	2,243,697
Total noncurrent assets	92,496,100	91,887,454	184,383,554	72,821,525
TOTAL ASSETS	\$ 113,376,695	\$ 109,853,016	\$ 223,229,711	\$ 79,710,260
CURRENT LIABILITIES:				
Accounts payable and other current liabilities	\$ 3,025,452	\$ 2,688,528	\$ 5,713,980	\$ 745,169
Wages payable	1,940,258	419,375	2,359,633	-
Accrued interest payable	915,748	340,431	1,256,179	-
Claims liability	1,592,767	-	1,592,767	-
Other liabilities	775,161	166,097	941,258	398,994
Due to other governments	240,399	-	240,399	-
Accrued vacation	1,447,959	549,537	1,997,496	-
Unearned revenue	520,152	-	520,152	-
Capital leases payable	444,006	538,089	982,095	-
Line of credit	-	-	-	340,853
Notes and bonds payable	3,131,400	3,706,600	6,838,000	1,243,326
Total current liabilities	14,033,302	8,408,657	22,441,959	2,728,342
NONCURRENT LIABILITIES:				
Capital leases payable	1,002,347	237,486	1,239,833	-
Accrued vacation	289,198	173,537	462,735	-
Unearned revenue	-	-	-	10,757,508
Other post-employment benefit liability	3,918,257	-	3,918,257	15,042
Notes and bonds payable	92,563,346	23,180,600	115,743,946	23,364,032
Total noncurrent liabilities	97,773,148	23,591,623	121,364,771	34,136,582
TOTAL LIABILITIES	111,806,450	32,000,280	143,806,730	36,864,924
NET ASSETS :				
Invested in capital assets, net of related debt	19,175,187	62,390,291	81,565,478	45,429,617
Restricted for roads	1,034,480	-	1,034,480	-
Restricted for CD Block Grants	5,137,637	-	5,137,637	-
Unrestricted(deficit)	(23,777,059)	15,462,445	(8,314,614)	(2,584,281)
Total net assets :	1,570,245	77,852,736	79,422,981	42,845,336
TOTAL LIABILITIES AND NET ASSETS	\$ 113,376,695	\$ 109,853,016	\$ 223,229,711	\$ 79,710,260

See Notes to Financial Statements

CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Primary government:				
Governmental activities:				
General government	\$ 14,514,780	\$ 5,849,055	\$ 124,403	\$ -
Public safety	51,117,977	7,043,765	984,038	494,162
Community development	12,544,800	1,782,643	4,642,401	250,000
Public works	9,353,946	2,463,882	1,989,546	880,404
Health and sanitation	2,285,122	170,013	1,984,311	-
Parks and recreation	2,583,320	358,414	1,728,103	504,902
Interest on long-term debt	<u>3,952,622</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	96,352,567	17,667,772	11,452,802	2,129,468
Business-type activities:				
Water fund	10,932,251	13,194,621	52,117	-
Sewer fund	13,639,529	15,089,091	96,874	-
Municipal golf course	1,076,235	1,296,971	3,474	-
Solid waste fund	<u>12,578,028</u>	<u>13,292,638</u>	<u>245,236</u>	<u>-</u>
Total business-type activities	<u>38,226,043</u>	<u>42,873,321</u>	<u>397,701</u>	<u>-</u>
Total primary government	<u>\$134,578,610</u>	<u>\$ 60,541,093</u>	<u>\$ 11,850,503</u>	<u>\$ 2,129,468</u>
COMPONENT UNITS				
Allentown Redevelopment Authority	\$ 610,082	\$ 1,469,813	\$ 751,471	-
Allentown Economic Development Corporation	2,334,644	1,419,741	422,671	-
Allentown Parking Authority	<u>6,144,085</u>	<u>5,841,711</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 9,088,811</u>	<u>\$ 8,731,265</u>	<u>\$ 1,174,142</u>	<u>\$ -</u>
General Revenues:				
Property taxes				
Act 511				
Utility Realty				
Deed Transfer Tax				
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
\$ (8,541,322)		\$ (8,541,322)	
(42,596,012)		(42,596,012)	
(5,869,756)		(5,869,756)	
(4,020,114)		(4,020,114)	
(130,798)		(130,798)	
8,099		8,099	
<u>(3,952,622)</u>		<u>(3,952,622)</u>	
(65,102,525)		(65,102,525)	
-	\$ 2,314,487	2,314,487	
-	1,546,436	1,546,436	
-	224,210	224,210	
<u>-</u>	<u>959,846</u>	<u>959,846</u>	
<u>(65,102,525)</u>	<u>5,044,979</u>	<u>(60,057,546)</u>	
			\$ 1,611,202
			(492,232)
			<u>(302,374)</u>
			<u>\$ 816,596</u>
29,761,519	-	29,761,519	-
17,179,383	-	17,179,383	-
65,702	-	65,702	-
941,703	-	941,703	-
5,048,294	-	5,048,294	-
223,172	(3,571)	219,601	109,499
<u>4,631,594</u>	<u>(4,631,594)</u>	<u>-</u>	<u>-</u>
<u>57,851,367</u>	<u>(4,635,165)</u>	<u>53,216,202</u>	<u>109,499</u>
(7,251,158)	409,814	(6,841,344)	926,095
<u>8,821,403</u>	<u>77,442,922</u>	<u>86,264,325</u>	<u>41,919,241</u>
<u>\$ 1,570,245</u>	<u>\$ 77,852,736</u>	<u>\$ 79,422,981</u>	<u>\$ 42,845,336</u>

CITY OF ALLENTOWN, PENNSYLVANIA

BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General	Liquid Fuels
<u>ASSETS</u>		
Cash and cash equivalents	\$ 5,641,151	\$ 1,105,633
Receivables:		
Taxes	915,345	-
Loans	-	-
Accounts	1,130,410	-
Grants	493,873	-
Due from other funds	<u>862,223</u>	<u>-</u>
TOTAL	<u>\$ 9,043,002</u>	<u>\$ 1,105,633</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>		
LIABILITIES		
Accounts payable	1,412,615	26,211
Accrued wages payable	1,835,098	44,942
Due to other funds	-	-
Due to other governments	3,820	-
Deferred revenues	851,505	-
Other liabilities	<u>652,260</u>	<u>-</u>
Total liabilities	<u>4,755,298</u>	<u>71,153</u>
FUND BALANCES:		
Reserved for encumbrances	810,719	-
Reserved for specific fund balances	-	1,034,480
Unreserved (deficits), undesignated	<u>3,476,985</u>	<u>-</u>
Total fund balances (deficits)	<u>4,287,704</u>	<u>1,034,480</u>
TOTAL	<u>\$ 9,043,002</u>	<u>\$ 1,105,633</u>

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

- Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds
- Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds
- Accrued interest payable included on the statement of net assets
- Net pension asset included on the statement of net assets
- Assets and liabilities of the internal service fund reported in the statement of net assets are used to charge the cost of insurance to individual funds and are not reported in the funds
- Debt issuance costs are deferred and amortized on the statement of net assets
- Other post-employment benefits liability included 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
\$ 871,570	\$ 2,637,688	\$ -	\$ 960,911	\$ 11,216,953
-	-	-	-	915,345
4,460,415	-	-	-	4,460,415
-	127,247	-	-	1,257,657
896,686	-	606,582	-	1,997,141
<u>-</u>	<u>2,990,896</u>	<u>-</u>	<u>-</u>	<u>3,853,119</u>
<u>\$ 6,228,671</u>	<u>\$ 5,755,831</u>	<u>\$ 606,582</u>	<u>\$ 960,911</u>	<u>\$ 23,700,630</u>
571,131	373,032	13,278	6,261	2,402,528
8,177	-	32,031	13,087	1,933,335
175,185	1,245,977	606,166	759,446	2,786,774
236,579	-	-	-	240,399
-	-	520,152	-	1,371,657
<u>99,962</u>	<u>22,939</u>	<u>-</u>	<u>-</u>	<u>775,161</u>
<u>1,091,034</u>	<u>1,641,948</u>	<u>1,171,627</u>	<u>778,794</u>	<u>9,509,854</u>
-	4,113,883	32,888	213,860	5,171,350
5,137,637	-	-	-	6,172,117
<u>-</u>	<u>-</u>	<u>(597,933)</u>	<u>(31,743)</u>	<u>2,847,309</u>
<u>5,137,637</u>	<u>4,113,883</u>	<u>(565,045)</u>	<u>182,117</u>	14,190,776
<u>\$ 6,228,671</u>	<u>\$ 5,755,831</u>	<u>\$ 606,582</u>	<u>\$ 960,911</u>	
				84,991,286
				851,505
				(915,748)
				809,383
				2,204,540
				2,235,016
				(3,918,257)
				<u>(98,878,256)</u>
				<u>\$ 1,570,245</u>

CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General	Liquid Fuels
REVENUES:		
Taxes	\$ 47,630,562	\$ -
Licenses and permits	3,571,616	-
Charges for services	7,032,774	-
Fines and forfeits	461,834	-
Investment earnings	229,141	(11,734)
Intergovernmental revenues	10,413,562	2,002,865
Other	<u>1,853,540</u>	<u>59,990</u>
Total revenues	<u>71,193,029</u>	<u>2,051,121</u>
EXPENDITURES:		
Current:		
General government	7,641,916	-
Public safety	47,363,536	-
Community development	5,097,403	-
Public works	7,747,735	1,999,823
Health and sanitation	2,648,017	-
Parks and recreation	1,575,922	-
Debt service:		
Principal	-	-
Interest	-	-
Payment of Debt Issuance Costs	-	-
Capital outlay	<u>895,728</u>	<u>-</u>
Total expenditures	<u>72,970,257</u>	<u>1,999,823</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,777,228)</u>	<u>51,298</u>
OTHER FINANCING SOURCES (USES):		
Issuance of Long Term Debt	-	-
Transfers in	4,938,429	-
Transfers out	<u>(7,078,686)</u>	<u>-</u>
Total other financing sources and uses	<u>(2,140,257)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(3,917,485)	51,298
FUND BALANCE (DEFICIT), BEGINNING	<u>8,205,189</u>	<u>983,182</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 4,287,704</u>	<u>\$ 1,034,480</u>

See Notes to Financial Statements

Statement consists of both facing pages

Community Development Block Grant	Debt Service	Capital Projects	Trexler	E-911	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,630,562
-	-	-	-	-	3,571,616
-	-	122,994	-	-	7,155,768
-	-	-	-	-	461,834
789	-	-	-	4,976	223,172
4,642,401	-	2,129,468	1,708,786	-	20,897,082
45,089	-	10,803	19,317	2,385,393	4,374,132
<u>4,688,279</u>	<u>-</u>	<u>2,263,265</u>	<u>1,728,103</u>	<u>2,390,369</u>	<u>84,314,166</u>
-	14,700	-	-	-	7,656,616
-	-	-	-	2,552,703	49,916,239
7,507,858	-	-	-	-	12,605,261
-	-	-	-	-	9,747,558
-	-	-	-	-	2,648,017
-	-	-	1,275,873	-	2,851,795
-	2,575,600	-	-	-	2,575,600
-	3,960,851	-	-	-	3,960,851
-	-	49,786	-	-	49,786
-	-	5,092,861	-	-	5,988,589
<u>7,507,858</u>	<u>6,551,151</u>	<u>5,142,647</u>	<u>1,275,873</u>	<u>2,552,703</u>	<u>98,000,312</u>
<u>(2,819,579)</u>	<u>(6,551,151)</u>	<u>(2,879,382)</u>	<u>452,230</u>	<u>(162,334)</u>	<u>(13,686,146)</u>
-	-	5,310,000	-	-	5,310,000
-	6,551,151	250,000	-	669,103	12,408,683
<u>(364,076)</u>	<u>-</u>	<u>-</u>	<u>(268,000)</u>	<u>(18,027)</u>	<u>(7,728,789)</u>
<u>(364,076)</u>	<u>6,551,151</u>	<u>5,560,000</u>	<u>(268,000)</u>	<u>651,076</u>	<u>9,989,894</u>
(3,183,655)	-	2,680,618	184,230	488,742	(3,696,252)
<u>8,321,292</u>	<u>-</u>	<u>1,433,265</u>	<u>(749,275)</u>	<u>(306,625)</u>	<u>17,887,028</u>
<u>\$ 5,137,637</u>	<u>\$ -</u>	<u>\$ 4,113,883</u>	<u>\$ (565,045)</u>	<u>\$ 182,117</u>	<u>\$ 14,190,776</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, 2009

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

Net change in fund balances - total governmental funds	\$ (3,696,252)
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.	5,407,548
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.	(4,122,895)
The net effect of various transactions involving capital assets (i.e. disposals and contributions) is to decrease net assets.	431,877
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.	155,649
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.	22,188
Activities of the internal service fund are reported as net expense in the statement of activities.	(854,490)
Change in net pension asset not reflected in the funds.	10,868
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds.	(5,310,000)
The repayment of principal of long term debt consumes the current financial resources of governmental funds.	2,575,600
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.	(7,502)
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.	8,229
Other post-employment benefits is reported in the statement of activities but does not require the use of current financial resources; therefore the benefits are not reported as expenditures in governmental funds	<u>(1,871,978)</u>
Change in net assets of governmental activities	<u>\$ (7,251,158)</u>

See Notes to Financial Statements

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CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENTS OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2009**

	Water Fund	Sewer Fund
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,324,661	\$ 4,665,707
Accounts receivable:		
Metered charges	4,314,176	2,644,172
Refuse collection	-	-
Other	21,269	571,480
Signatories	<u>410,045</u>	<u>1,963,885</u>
Total accounts receivable	4,745,490	5,179,537
Allowance for doubtful accounts	<u>1,380,769</u>	<u>894,561</u>
Net accounts receivable	<u>3,364,721</u>	<u>4,284,976</u>
Due from other funds	<u>-</u>	<u>1,245,977</u>
Total current assets	<u>4,689,382</u>	<u>10,196,660</u>
CAPITAL ASSETS:		
Land	2,595,840	28,450
Buildings	11,515,134	29,093,423
Land and building improvements	14,958,975	5,018,428
Machinery and equipment	19,733,929	13,170,702
Vehicles	2,628,566	1,948,423
Distribution and collection systems	41,380,031	10,649,926
Construction in progress	<u>298,477</u>	<u>1,448,400</u>
Total capital assets	93,110,952	61,357,752
Accumulated depreciation	<u>(34,956,283)</u>	<u>(35,532,571)</u>
Net capital assets	<u>58,154,669</u>	<u>25,825,181</u>
Other assets	<u>1,224,697</u>	<u>609,691</u>
Total noncurrent assets	<u>59,379,366</u>	<u>26,434,872</u>
TOTAL	<u>\$ 64,068,748</u>	<u>\$ 36,631,532</u>

See Notes to Financial Statements

Statement consists of both facing pages

Municipal Golf Course	Solid Waste Fund	Totals	Internal Service Fund
<u>\$ 163,117</u>	<u>\$ 4,704,268</u>	<u>\$ 10,857,753</u>	<u>\$ 4,427,154</u>
-	-	6,958,348	-
-	1,401,186	1,401,186	-
-	-	592,749	-
-	-	<u>2,373,930</u>	-
-	1,401,186	11,326,213	-
-	<u>876,729</u>	<u>3,152,059</u>	-
-	<u>524,457</u>	<u>8,174,154</u>	-
-	-	<u>1,245,977</u>	-
<u>163,117</u>	<u>5,228,725</u>	<u>20,277,884</u>	<u>4,427,154</u>
1,134,759	-	3,759,049	-
227,475	1,017,066	41,853,098	-
3,000,257	1,438,630	24,416,290	-
779,002	1,708,722	35,392,355	-
282,354	2,763,102	7,622,445	-
37,465	-	52,067,422	-
-	-	<u>1,746,877</u>	-
5,461,312	6,927,520	166,857,536	-
<u>(2,555,970)</u>	<u>(3,759,646)</u>	<u>(76,804,470)</u>	-
<u>2,905,342</u>	<u>3,167,874</u>	<u>90,053,066</u>	-
-	-	<u>1,834,388</u>	-
<u>2,905,342</u>	<u>3,167,874</u>	<u>91,887,454</u>	-
<u>\$ 3,068,459</u>	<u>\$ 8,396,599</u>	<u>\$ 112,165,338</u>	<u>\$ 4,427,154</u>

(continued)

CITY OF ALLENTOWN, PENNSYLVANIA
STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2009

	Water Fund	Sewer Fund
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 260,075	\$ 772,570
Accrued wages payable	153,902	200,117
Accrued interest payable	198,820	141,611
Due to other funds	2,312,322	-
Capital leases payable	99,132	396,526
Claims liability	-	-
Other liabilities	96,955	-
Accrued vacation	198,654	262,144
Current portion of long term debt	<u>2,476,600</u>	<u>1,230,000</u>
Total current liabilities	<u>5,796,460</u>	<u>3,002,968</u>
LONG-TERM LIABILITIES:		
Capital lease payable	34,005	136,022
Bonds payable	13,355,600	9,825,000
Accrued vacation	<u>62,733</u>	<u>82,782</u>
Total long-term liabilities	<u>13,452,338</u>	<u>10,043,804</u>
Total liabilities	<u>19,248,798</u>	<u>13,046,772</u>
NET ASSETS :		
Invested in capital assets, net of related debt	42,189,332	14,237,633
Unrestricted	<u>2,630,618</u>	<u>9,347,127</u>
Total net assets	<u>44,819,950</u>	<u>23,584,760</u>
TOTAL Liabilities and Net Assets	<u>\$ 64,068,748</u>	<u>\$ 36,631,532</u>

See Notes to Financial Statements

Statement consists of both facing pages

Municipal Golf Course	Solid Waste Fund	Totals	Internal Service Fund
\$ 17,795	\$ 1,638,088	\$ 2,688,528	\$ 622,924
10,125	55,231	419,375	5,750
-	-	340,431	-
-	-	2,312,322	-
-	42,431	538,089	-
-	-	-	1,592,767
329	68,813	166,097	-
13,127	75,612	549,537	1,173
-	-	3,706,600	-
<u>41,376</u>	<u>1,880,175</u>	<u>10,720,979</u>	<u>2,222,614</u>
-	67,459	237,486	-
-	-	23,180,600	-
<u>4,145</u>	<u>23,877</u>	<u>173,537</u>	<u>-</u>
<u>4,145</u>	<u>91,336</u>	<u>23,591,623</u>	<u>-</u>
<u>45,521</u>	<u>1,971,511</u>	<u>34,312,602</u>	<u>2,222,614</u>
2,905,342	3,057,984	62,390,291	-
<u>117,596</u>	<u>3,367,104</u>	<u>15,462,445</u>	<u>2,204,540</u>
<u>3,022,938</u>	<u>6,425,088</u>	<u>77,852,736</u>	<u>2,204,540</u>
<u>\$ 3,068,459</u>	<u>\$ 8,396,599</u>	<u>\$ 112,165,338</u>	<u>\$ 4,427,154</u>

CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2009**

	Water Fund	Sewer Fund	Municipal Golf Course
OPERATING REVENUES:			
Charges for services:			
Metered charges	\$ 11,367,137	\$ 7,104,110	\$ -
Refuse collections	-	-	-
Recycling	-	-	-
Other charges	1,606,776	7,798,532	1,167,074
Miscellaneous	<u>220,708</u>	<u>186,449</u>	<u>129,897</u>
Total operating revenues	<u>13,194,621</u>	<u>15,089,091</u>	<u>1,296,971</u>
OPERATING EXPENSES:			
Personnel services	5,960,263	7,452,225	566,703
Utility services	549,359	739,091	19,120
Contracted services	78,391	770,699	99,148
Materials and supplies	1,148,016	2,227,477	229,812
Claims and benefits	-	-	-
Depreciation and amortization	2,037,248	1,904,326	153,157
Miscellaneous	<u>336,243</u>	<u>76,628</u>	<u>8,295</u>
Total operating expenses	<u>10,109,520</u>	<u>13,170,446</u>	<u>1,076,235</u>
OPERATING INCOME (LOSS)	<u>3,085,101</u>	<u>1,918,645</u>	<u>220,736</u>
NONOPERATING (EXPENSE) REVENUE:			
Investment income (loss)	(3,984)	(23,999)	(2,769)
Interest expense	(820,769)	(469,083)	-
Gain/(loss) on disposal of capital assets	(1,962)	-	-
Grants	<u>52,117</u>	<u>96,874</u>	<u>3,474</u>
Total nonoperating (expense) revenue	<u>(774,598)</u>	<u>(396,208)</u>	<u>705</u>
INCOME BEFORE TRANSFERS	2,310,503	1,522,437	221,441
TRANSFERS	<u>(1,931,421)</u>	<u>(1,741,969)</u>	<u>(418,805)</u>
NET INCOME (LOSS)	379,082	(219,532)	(197,364)
NET ASSETS, BEGINNING	<u>44,440,868</u>	<u>23,804,292</u>	<u>3,220,302</u>
NET ASSETS, ENDING	<u>\$44,819,950</u>	<u>\$23,584,760</u>	<u>\$ 3,022,938</u>

See Notes to Financial Statements

Statement consists of both facing pages

Solid Waste Fund	Totals	Internal Service Fund
\$ -	\$ 18,471,247	\$ -
12,735,050	12,735,050	-
288,454	288,454	-
-	10,572,382	14,036,953
<u>269,134</u>	<u>806,188</u>	<u>257,464</u>
<u>13,292,638</u>	<u>42,873,321</u>	<u>14,294,417</u>
2,109,062	16,088,253	-
19,116	1,326,686	-
9,615,715	10,563,953	-
135,378	3,740,683	-
-	-	15,096,370
348,467	4,443,198	-
<u>350,290</u>	<u>771,456</u>	<u>-</u>
<u>12,578,028</u>	<u>36,934,229</u>	<u>15,096,370</u>
<u>714,610</u>	<u>5,939,092</u>	<u>(801,953)</u>
27,181	(3,571)	(5,395)
-	(1,289,852)	-
-	(1,962)	-
<u>245,236</u>	<u>397,701</u>	<u>1,158</u>
<u>272,417</u>	<u>(897,684)</u>	<u>(4,237)</u>
987,027	5,041,408	(806,190)
<u>(539,399)</u>	<u>(4,631,594)</u>	<u>(48,300)</u>
447,628	409,814	(854,490)
<u>5,977,460</u>	<u>77,442,922</u>	<u>3,059,030</u>
<u>\$ 6,425,088</u>	<u>\$ 77,852,736</u>	<u>\$ 2,204,540</u>

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENTS OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Water Fund	Sewer Fund	Municipal Golf Course
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 13,524,300	\$ 14,654,764	\$ 1,296,971
Payments to suppliers for services	(2,096,491)	(3,467,928)	(357,903)
Payments to employees	<u>(5,954,725)</u>	<u>(7,419,501)</u>	<u>(567,934)</u>
Net cash provided by (used in) operating activities	<u>5,473,084</u>	<u>3,767,335</u>	<u>371,134</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received	52,117	96,874	3,474
Transfers	<u>(1,931,421)</u>	<u>(1,741,969)</u>	<u>(418,805)</u>
Net cash provided by (used in) noncapital financing activities	<u>(1,879,304)</u>	<u>(1,645,095)</u>	<u>(415,331)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(500,070)	(1,162,744)	(203,909)
Advance from/to other funds	(87,704)	580,159	-
Principal paid on capital debt	(2,370,200)	(1,180,000)	-
Payments of obligations under capital leases	(94,947)	(379,790)	-
Interest paid on long term obligations	<u>(684,347)</u>	<u>(408,166)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(3,737,268)</u>	<u>(2,550,541)</u>	<u>(203,909)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received/(paid)	<u>(3,983)</u>	<u>(23,997)</u>	<u>(2,769)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(147,471)	(452,298)	(250,875)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,472,132</u>	<u>5,118,005</u>	<u>413,992</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,324,661</u>	<u>\$ 4,665,707</u>	<u>\$ 163,117</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 3,085,101	\$ 1,918,645	\$ 220,736
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,037,248	1,904,326	153,158
Accounts receivable	329,679	(434,327)	-
Accounts payable	(81,439)	345,967	(3,915)
Accrued payroll	5,540	32,724	(1,231)
Other liabilities	<u>96,955</u>	<u>-</u>	<u>2,386</u>
Total adjustments	<u>2,387,983</u>	<u>1,848,690</u>	<u>150,398</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 5,473,084</u>	<u>\$ 3,767,335</u>	<u>\$ 371,134</u>

See Notes to Financial Statements

Statement consists of both facing pages

Solid Waste Fund	Totals	Internal Service Fund
\$ 13,427,528	\$ 42,903,563	\$ 14,294,417
(9,257,229)	(15,179,551)	(14,996,192)
<u>(2,106,656)</u>	<u>(16,048,816)</u>	<u>(537,055)</u>
<u>2,063,643</u>	<u>11,675,196</u>	<u>(1,238,830)</u>
240,236	392,701	1,158
<u>(539,399)</u>	<u>(4,631,594)</u>	<u>(48,300)</u>
<u>(299,163)</u>	<u>(4,238,893)</u>	<u>(47,142)</u>
(184,560)	(2,051,283)	-
-	492,455	-
-	(3,550,200)	-
(138,851)	(613,588)	-
<u>-</u>	<u>(1,092,513)</u>	<u>-</u>
<u>(323,411)</u>	<u>(6,815,129)</u>	<u>-</u>
<u>27,182</u>	<u>(3,567)</u>	<u>(5,395)</u>
1,468,251	617,607	(1,291,367)
<u>3,236,017</u>	<u>10,240,146</u>	<u>5,718,521</u>
<u>\$ 4,704,268</u>	<u>\$ 10,857,753</u>	<u>\$ 4,427,154</u>
<u>\$ 714,610</u>	<u>\$ 5,939,092</u>	<u>\$ (801,953)</u>
348,467	4,443,199	-
134,890	30,242	-
822,236	1,082,849	213,660
2,406	39,439	1,326
<u>41,034</u>	<u>140,375</u>	<u>(651,863)</u>
<u>1,349,033</u>	<u>5,736,104</u>	<u>(436,877)</u>
<u>\$ 2,063,643</u>	<u>\$ 11,675,196</u>	<u>\$ (1,238,830)</u>

CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENTS OF FIDUCIARY NET ASSETS
DECEMBER 31, 2009**

	Pension Trust Funds	Agency Funds
<u>ASSETS</u>		
CASH AND CASH EQUIVALENTS	\$ 142,682	\$ 7,438,130
OTHER RECEIVABLES	160,263	-
INTEREST RECEIVABLE	33	-
INVESTMENTS, At fair value Mutual Funds	<u>109,147,827</u>	<u>-</u>
TOTAL	<u>\$ 109,450,805</u>	<u>\$ 7,438,130</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Payroll tax liabilities	\$ -	\$ 1,538,972
Due to other governments	<u>-</u>	<u>5,899,158</u>
Total liabilities	<u>-</u>	<u>7,438,130</u>
NET ASSETS:		
Reserved for pension benefits	<u>109,450,805</u>	<u>-</u>
TOTAL	<u>\$ 109,450,805</u>	<u>\$ 7,438,130</u>

See Notes to Financial Statements

CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Pension Trust Funds
<hr/>	
ADDITIONS:	
Contributions:	
Employer	\$ 11,131,932
Plan members	<u>1,277,659</u>
Total contributions	<u>12,409,591</u>
Investment income:	
Net appreciation in fair value of investments	16,804,066
Interest and dividends	2,650,222
Less investment expenses	<u>(117,659)</u>
Net investment income	<u>19,336,629</u>
Other income:	
Miscellaneous	<u>27,471</u>
Total other income	<u>27,471</u>
Total additions	<u>31,773,691</u>
DEDUCTIONS:	
Benefits paid to recipients	16,313,156
Administrative and other fees	<u>29,834</u>
Total deductions	<u>16,342,990</u>
CHANGE IN NET ASSETS	15,430,701
NET ASSETS, BEGINNING	<u>94,020,104</u>
NET ASSETS, ENDING	<u>\$ 109,450,805</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 segments 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.

LIQUID FUELS 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 (GASB). 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 value. 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 and per capita receivables are shown net of an allowance for uncollectibles. The property tax and per capita receivable allowance is calculated based on collection history and was approximately \$ 1,708,000 at December 31, 2009.

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, 2009 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 \$ 20 per day, depending upon employees' classification, up to 125 days upon retirement.

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 2009 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, 2009, 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, 2009, 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 \$ 1,592,767 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.

RECENT ACCOUNTING PRONOUNCEMENTS

The City adopted FASB ASC 105-10, which establishes the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The adoption of the Codification did not have a material impact on the City's financial statements.

The City adopted the new accounting guidance for subsequent events as codified in FASB ASC 855, *Subsequent Events*. The new guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the date the financial statements are issued or available to be issued. This guidance requires organizations to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance sheet date. Subsequent events that provide evidence about conditions that arose after the balance sheet date should be disclosed if the financial statements would otherwise be misleading. Disclosure should include the nature of the event and either an estimate of its financial effect or a statement that an estimate cannot be made.

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. The Authority, in collaboration with the City's Department of Community and Economic Development, addresses urban revitalization. The Authority is financially dependent on the City.

ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION

Allentown Economic Development Corporation ("AEDC"), an entity legally separate from the City, is governed by a board which is elected by the membership of AEDC, in addition to the Mayor, a City Council member, the City Director of Economic Development and the County Executive of Lehigh County. 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, 2009

	ALLENTOWN REDEVELOPMENT AUTHORITY	ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION*	ALLENTOWN PARKING AUTHORITY	TOTAL
ASSETS				
Cash and cash equivalents	\$ 530,145	\$ 1,633,529	\$ 835,266	\$ 2,998,940
Cash and cash equivalents, restricted	-	1,357,805	-	1,357,805
Investment, certificate of deposit	-	-	1,285,524	1,285,524
Accounts receivable, net	199,052	416,749	277,090	892,891
Due from other governments	37,640	-	-	37,640
Other assets	880,000	1,048,718	630,914	2,559,632
Capital assets, net	<u>2,168,744</u>	<u>24,397,557</u>	<u>44,011,527</u>	<u>70,577,828</u>
 Total assets	 <u>\$ 3,815,581</u>	 <u>\$ 28,854,358</u>	 <u>\$ 47,040,321</u>	 <u>\$ 79,710,260</u>
LIABILITIES				
Accounts payable	\$ 37,641	\$ 38,261	\$ 392,747	\$ 468,649
Long-term debt	-	4,805,630	19,801,728	24,607,358
Other liabilities	<u>24,001</u>	<u>295,280</u>	<u>11,469,636</u>	<u>11,788,917</u>
 Total liabilities	 <u>61,642</u>	 <u>5,139,171</u>	 <u>31,664,111</u>	 <u>36,864,924</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,168,744	19,391,927	23,868,946	45,429,617
Unrestricted	<u>1,585,195</u>	<u>4,323,260</u>	<u>(8,492,736)</u>	<u>(2,584,281)</u>
 Total net assets	 <u>3,753,939</u>	 <u>23,715,187</u>	 <u>15,376,210</u>	 <u>42,845,336</u>
 Total liabilities and net assets	 <u>\$ 3,815,581</u>	 <u>\$ 28,854,358</u>	 <u>\$ 47,040,321</u>	 <u>\$ 79,710,260</u>

* Presented as of June 30, 2009.

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

CONDENSED FINANCIAL STATEMENTS
 DISCRETELY PRESENTED COMPONENT UNITS
 STATEMENTS OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2009

	ALLENTOWN REDEVELOPMENT AUTHORITY	ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION*	ALLENTOWN PARKING AUTHORITY	TOTAL
Program revenues:				
Charges for services	\$ -	\$ 1,419,741	\$ 5,754,523	\$ 7,174,264
Grants	751,471	422,671	-	1,174,142
Other revenues:				
Investment income	273	64,019	45,207	109,499
Other income	<u>1,469,813</u>	<u>-</u>	<u>87,188</u>	<u>1,557,001</u>
Total revenues	<u>2,221,557</u>	<u>1,906,431</u>	<u>5,886,918</u>	<u>10,014,906</u>
Expenses:				
Operating and other expenses	610,082	1,826,765	3,058,354	5,495,201
Capital contributions	-	-	596,060	596,060
Depreciation and amortization	-	273,258	1,575,715	1,848,973
Interest expense	-	233,203	915,956	1,149,159
Gain (loss) on disposal of assets	<u>-</u>	<u>1,418</u>	<u>(2,000)</u>	<u>(582)</u>
Total expenses	<u>610,082</u>	<u>2,334,644</u>	<u>6,144,085</u>	<u>9,088,811</u>
Net income (loss)	1,611,475	(428,213)	(257,167)	926,095
Net assets, beginning of year	<u>2,142,464</u>	<u>24,143,400</u>	<u>15,633,377</u>	<u>41,919,241</u>
Net assets, end of year	<u>\$ 3,753,939</u>	<u>\$ 23,715,187</u>	<u>\$ 15,376,210</u>	<u>\$ 42,845,336</u>

* Presented as of June 30, 2009.

3. DEPOSITS AND INVESTMENTS

The carrying amounts of cash and investments at December 31, 2009 consist of the following:

Petty cash	\$ 9,350
Cash and cash equivalents	26,524,492
Investments	<u>116,696,659</u>
	<u>\$143,230,501</u>

RECONCILIATION TO STATEMENTS OF NET ASSETS/BALANCE SHEETS

Cash and cash equivalents:	
Governmental	\$ 12,453,940
Business-type	6,499,090
Fiduciary	<u>7,580,812</u>
	<u>26,533,842</u>
Investments:	
Governmental	3,190,167
Business-type	4,358,663
Fiduciary	<u>109,147,829</u>
	<u>116,696,659</u>
	<u>\$143,230,501</u>

CASH AND CASH EQUIVALENTS

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, 2009, the carrying amounts of the City's bank deposits were \$ 26,524,492 and the bank balances were \$ 32,442,954, of which \$ 31,192,954 was exposed to custodial risk because it was not covered by Federal Depository Insurance.

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

INVESTMENTS

As of December 31, 2009, the City's investments were comprised of the following:

Cash equivalents	\$ 13,037,604
Certificate of deposit	703,763
Registered investment companies	95,406,462
Debt securities	<u>7,548,830</u>
 Total	 <u>\$116,696,659</u>

As of December 31, 2009, the City had the following investments in debt securities:

Debt Security Maturities (in Years)

Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10	Rating
United States Treasury Notes	\$ 4,922,120	\$ 759,886	\$ 1,443,092	\$ 2,719,142	\$ -	N/A
United States Government agency securities	101,318	575	56,911	42,638	1,194	S&P's AAA Moody's Aaa
Corporate bonds	<u>2,525,392</u>	<u>-</u>	<u>2,525,392</u>	<u>-</u>	<u>-</u>	S&P's AAA Moody's Aaa
Total debt securities	<u>\$ 7,548,830</u>	<u>\$ 760,461</u>	<u>\$ 4,025,395</u>	<u>\$ 2,761,780</u>	<u>\$ 1,194</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 51% domestic equities, 12% international equities, 5% real estate and 32% 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, 2009, \$ 116,696,659 of the City's investments are held by the investment's counterparty, not in the name of the City. The City does not have a formal policy limiting the amount of investments that can be held by counterparties.

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. The carrying amounts of the City's component units bank deposits were \$ 5,642,269 and the bank balances were \$ 6,016,094, of which \$ 3,570,651 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, 2009 is as follows:

	January 1, <u>2009</u>	<u>Additions</u>	<u>Disposals</u>	December 31, <u>2009</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 8,409,945	\$ -	\$ -	\$ 8,409,945
Property held for development	709,951	-	(20,251)	689,700
Art	95,166	-	-	95,166
Construction in progress	<u>14,154,907</u>	<u>4,145,108</u>	<u>(2,957,377)</u>	<u>15,342,638</u>
 Total capital assets not being depreciated	 <u>23,369,969</u>	 <u>4,145,108</u>	 <u>(2,977,628)</u>	 <u>24,537,449</u>
Capital assets being depreciated:				
Buildings	22,892,925	-	-	22,892,925
Land and building improvements	20,103,278	1,086,322	-	21,189,600
Machinery and equipment	16,114,164	1,559,186	(56,536)	17,616,814
Vehicles	16,055,686	1,591,577	(1,170,341)	16,476,922
Infrastructure	<u>63,166,136</u>	<u>-</u>	<u>(3,937)</u>	<u>63,162,199</u>
 Total capital assets being depreciated	 <u>138,332,189</u>	 <u>4,237,085</u>	 <u>(1,230,814)</u>	 <u>141,338,460</u>
Less accumulated depreciation for:				
Buildings	15,695,031	582,173	-	16,277,204
Land and building improvements	10,080,152	837,688	-	10,917,840
Machinery and equipment	11,803,791	816,817	(39,268)	12,581,340
Vehicles	12,937,807	933,531	(1,162,527)	12,708,811
Infrastructure	<u>27,449,254</u>	<u>952,686</u>	<u>(2,512)</u>	<u>28,399,428</u>
 Total accumulated depreciation	 <u>77,966,035</u>	 <u>4,122,895</u>	 <u>(1,204,307)</u>	 <u>80,884,623</u>
 Total capital assets being depreciated, net	 <u>60,366,154</u>	 <u>114,190</u>	 <u>(26,507)</u>	 <u>60,453,837</u>
 Governmental activities capital assets, net	 <u>\$ 83,736,123</u>	 <u>\$ 4,259,298</u>	 <u>\$ (3,004,135)</u>	 <u>\$ 84,991,286</u>

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

	January 1, 2009	Additions	Disposals	December 31, 2009
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,759,049	\$ -	\$ -	\$ 3,759,049
Construction in progress	<u>1,310,010</u>	<u>990,246</u>	<u>(553,379)</u>	<u>1,746,877</u>
Total capital assets not being depreciated	<u>5,069,059</u>	<u>990,246</u>	<u>(553,379)</u>	<u>5,505,926</u>
Capital assets being depreciated:				
Buildings	41,853,098	-	-	41,853,098
Land and building improvements	24,146,582	269,708	-	24,416,290
Machinery and equipment	34,114,466	1,277,889	-	35,392,355
Vehicles	7,834,224	218,855	(430,634)	7,622,445
Distribution and collection systems	<u>52,088,807</u>	<u>-</u>	<u>(21,385)</u>	<u>52,067,422</u>
Total capital assets being depreciated	<u>160,037,177</u>	<u>1,766,452</u>	<u>(452,019)</u>	<u>161,351,610</u>
Less accumulated depreciation for:				
Buildings	22,383,451	1,107,510	-	23,490,961
Land and building improvements	8,173,348	671,015	-	8,844,363
Machinery and equipment	22,601,081	1,690,038	-	24,291,119
Vehicles	6,168,396	317,869	(411,265)	6,075,000
Distribution and collection systems	<u>13,581,755</u>	<u>540,694</u>	<u>(19,422)</u>	<u>14,103,027</u>
Total accumulated depreciation	<u>72,908,031</u>	<u>4,327,126</u>	<u>(430,687)</u>	<u>76,804,470</u>
Total capital assets being depreciated, net	<u>87,129,146</u>	<u>(2,560,674)</u>	<u>(21,332)</u>	<u>84,547,140</u>
Business-type activities capital assets, net	<u>\$ 92,198,205</u>	<u>\$ (1,570,428)</u>	<u>\$ (574,711)</u>	<u>\$ 90,053,066</u>

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to governmental activities as follows:

General government	\$ 387,624
Public safety	1,141,882
Public works	1,811,445
Health	51,999
Parks and recreation	676,972
Community development and planning	<u>52,973</u>
 Total	 <u>\$ 4,122,895</u>

5. INTERFUND RECEIVABLE AND PAYABLE BALANCES

The composition of interfund balances as of December 31, 2009 is as follows:

Receivable Fund	Payable Fund	Purpose for Balance	Amount
General	Trexler	Short-term loan/neg. cash	\$ 606,166
	CDBG	Cash advance for AP	175,185
	E-911	Cash advance for AP	<u>80,872</u>
	Total due to General Fund		<u>862,223</u>
Capital Projects	Water	Short-term borrowing	2,312,322
	E-911	Capital project expenditures	<u>678,574</u>
	Total due to Capital Projects		<u>2,990,896</u>
Sewer	Capital	Short-term borrowing	<u>1,245,977</u>
	Total due to Sewer Fund		<u>1,245,977</u>
Total			<u>\$ 5,099,096</u>

Inter-fund balances represent short-term borrowing between funds.

6. INDIVIDUAL FUND INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2009 consisted of the following:

	Transfer In:				<u>Total</u>
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects</u>	<u>E-911 Fund</u>	
<i>Transfers Out:</i>					
General	\$ -	\$ 6,409,583	\$ -	\$ 669,103	\$ 7,078,686
CDBG	355,304	8,772	-	-	364,076
Trexler	18,000	-	250,000	-	268,000
E-911	9,255	8,772	-	-	18,027
Risk	48,300	-	-	-	48,300
Water	1,931,421	-	-	-	1,931,421
Sewer	1,724,425	17,544	-	-	1,741,969
Golf	312,325	106,480	-	-	418,805
Solid Waste	<u>539,399</u>	<u>-</u>	<u>-</u>	<u>-</u>	539,399
 Total	 <u>\$ 4,938,429</u>	 <u>\$ 6,551,151</u>	 <u>\$ 250,000</u>	 <u>\$ 669,103</u>	

The majority of interfund transfers were for recurring annual transfers. Transfers totaling \$ 4,383,125 were made to the General Fund for reimbursement of services rendered by the General Fund for other operating funds. A transfer totaling \$ 250,000 was made to Capital Projects for the enhancement of the park system. A transfer from the General Fund to the E-911 Fund was made to cover ineligible expenses as required by the Pennsylvania Public Safety Emergency Telephone Act.

Transfers from the funds were made to the Debt Service Fund to cover the debt requirement. Transfers were made to the General Fund from the Water and Sewer Funds for Homeland Security and from the CDBG Fund for reimbursement of salaries.

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 non-uniformed City employees hired after June 8, 1976 are eligible to participate in the PMRS Plan. PMRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR), which may be obtained by writing to 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 terms of each Plan. The following is a statement of fiduciary net assets and a statement of changes in fiduciary net assets for the City's three single-employer defined benefit plans:

VALUATION OF INVESTMENTS

All investments of the pension plans are reported at fair value based on quoted market values. Investments that do not have an established market value are reported at estimated fair value. Insurance holdings, if any, are valued at reported contract values.

<u>ASSETS</u>	<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>
CASH AND CASH EQUIVALENTS	\$ 20,413	\$ 99,278	\$ 22,991	\$ 142,682
INTEREST RECEIVABLE	5	18	10	33
OTHER RECEIVABLE	-	48,804	111,459	160,263
INVESTMENTS, at fair value	<u>16,462,483</u>	<u>55,156,900</u>	<u>37,528,444</u>	<u>109,147,827</u>
NET ASSETS, reserved for pension benefits	<u>\$ 16,482,901</u>	<u>\$ 55,305,000</u>	<u>\$ 37,662,904</u>	<u>\$109,450,805</u>

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the pension plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

	<u>Officers and Employees' Pension Fund</u>	<u>Policemen's Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Total Pension Trust Funds</u>
ADDITIONS:				
Contributions:				
Employer	\$ 451,053	\$ 7,115,495	\$ 3,565,384	\$ 11,131,932
Plan members	<u>21,454</u>	<u>673,014</u>	<u>583,191</u>	<u>1,277,659</u>
Total contributions	<u>472,507</u>	<u>7,788,509</u>	<u>4,148,575</u>	<u>12,409,591</u>
Investment earnings:				
Net appreciation in fair value of investments	2,520,679	8,527,908	5,755,479	16,804,066
Interest and dividends	445,144	1,288,439	916,639	2,650,222
Less investment expenses	<u>(17,412)</u>	<u>(68,935)</u>	<u>(31,312)</u>	<u>(117,659)</u>
Net investment earnings	<u>2,948,411</u>	<u>9,747,412</u>	<u>6,640,806</u>	<u>19,336,629</u>
Other income, miscellaneous	<u>7,537</u>	<u>11,769</u>	<u>8,165</u>	<u>27,471</u>
Total additions	<u>3,428,455</u>	<u>17,547,690</u>	<u>10,797,546</u>	<u>31,773,691</u>
DEDUCTIONS:				
Benefits paid to recipients	2,760,841	8,774,450	4,777,865	16,313,156
Administrative and other fees	<u>9,941</u>	<u>9,952</u>	<u>9,941</u>	<u>29,834</u>
Total deductions	<u>2,770,782</u>	<u>8,784,402</u>	<u>4,787,806</u>	<u>16,342,990</u>
CHANGE IN NET ASSETS	657,673	8,763,288	6,009,740	15,430,701
NET ASSETS, BEGINNING	<u>15,825,228</u>	<u>46,541,712</u>	<u>31,653,164</u>	<u>94,020,104</u>
NET ASSETS, ENDING	<u>\$ 16,482,901</u>	<u>\$ 55,305,000</u>	<u>\$ 37,662,904</u>	<u>\$ 109,450,805</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 the Pennsylvania State Act 15 for the PMRS Plan.

	<u>Officers and Employees</u>	<u>Policemen</u>	<u>Firemen</u>	<u>PMRS</u>
<u>Covered Employees</u>	<u>Closed 6/8/76</u>	<u>All full-time members of the Police Force</u>	<u>All full-time members of the Fire Department</u>	<u>All full-time employees not previously covered</u>
Number of active plan members	7	175	134	531
Number of retirees and beneficiaries receiving benefits	219	292	178	239
Terminated employees entitled to deferred benefits	-	-	-	25

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' biannual 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 2009. 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>Officers and Employees</u>	<u>Policemen</u>	<u>Firemen</u>
Annual required contribution (MMO)	\$ 451,053	\$ 7,115,495	\$ 3,565,384
Interest on net pension asset	(2,422)	(39,567)	(21,893)
Adjustment to annual required contribution	<u>2,855</u>	<u>46,643</u>	<u>25,808</u>
Annual pension cost	451,486	7,122,571	3,569,299
Contributions made	<u>451,053</u>	<u>7,115,495</u>	<u>3,587,676</u>
(Increase) decrease in net pension asset	433	7,076	(18,377)
Net pension (asset), beginning of year	<u>(30,269)</u>	<u>(494,588)</u>	<u>(273,658)</u>
Net pension (asset), end of year	<u>\$ (29,836)</u>	<u>\$ (487,512)</u>	<u>\$ (292,035)</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>
Officers and Employees	12/31/07	\$ 529,778	99.8%	\$ 31,146
	12/31/08	356,156	99.8%	30,269
	12/31/09	451,486	99.9%	29,836
Policemen	12/31/07	5,856,082	99.8%	508,928
	12/31/08	6,037,275	99.8%	494,588
	12/31/09	7,122,571	99.9%	487,512
Firemen	12/31/07	3,057,491	99.7%	281,592
	12/31/08	3,114,263	99.7%	273,658
	12/31/09	3,569,299	100.5%	292,035
Pennsylvania Municipal Retirement Plan	12/31/07	1,263,532	100.0%	-
	12/31/08	1,374,389	100.0%	-
	12/31/09	1,217,945	100.0%	-

The annual required contribution for each of the Plans for the current year was determined as part of the January 1, 2007 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 5.2% for the 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 year accrual adjustments, if any. The PMRS Plan's actuarial accrued liability was fully funded at January 1, 2009.

INVESTMENTS THAT REPRESENT FIVE PERCENT OR MORE OF PLAN NET ASSETS

At December 31, 2009, 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 on a closed basis. The remaining amortization period ranges from 13 to 15 years for the Officers and Employees Plan, 4 to 26 years for the Policemen Plan and 6 to 26 years for the Firemen Plan.

FUNDED STATUS AND FUNDING PROGRESS:

The funded status of the City's pension funds as of January 1, 2009, the most recent actuarial valuation date, is as follows:

	ACTUARIAL VALUE OF ASSETS <u>(A)</u>	ACTUARIAL ACCRUED LIABILITY (AAL) - ENTRY AGE <u>(B)</u>	UNFUNDED AAL (UAAL) <u>(B-A)</u>	FUNDED RATIO <u>(A/B)</u>	COVERED PAYROLL <u>(C)</u>	UAAL/(AAL) AS A PERCENTAGE OF COVERED <u>PAYROLL</u>
Officers and Employees Plan	\$ 17,238,602	\$ 23,095,953	\$ 5,857,351	74.64%	\$ 370,644	1,580.30%
Policemen's Pension Fund	62,199,346	132,505,514	70,306,168	46.94%	11,384,012	617.60%
Firemen's Pension Fund Plan	42,706,507	77,233,681	34,527,174	55.30%	9,386,995	367.80%
Pennsylvania Municipal Retirement System Plan	101,184,335	87,426,679	(13,757,656)	115.74%	24,003,648	(57.31)%

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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, 2009, general long-term debt obligations of the City's governmental activities were as follows:

<u>Notes and General Obligation Bonds</u>	Balance Outstanding January 1, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2009</u>	<u>Current Portion</u>
1993 General Obligation Bonds, 5.70% interest, due in 2010	\$ 325,000	\$ -	\$ 160,000	\$ 165,000	\$ 165,000
1993 General Obligation Refunding Bonds, 5.65% interest, due in 2010	1,525,000	-	740,000	785,000	785,000
2001 General Obligation Bond, 2.80% to 5.00% interest, serial portion payable in varying annual installments of \$ 355,000 in 2009 to \$ 290,000 in 2021	4,360,000	-	355,000	4,005,000	370,000
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	6,555,000	-	-	6,555,000	-
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	31,325,000	-	-	31,325,000	-
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	1,275,000	-	15,000	1,260,000	10,000
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	5,830,000	-	260,000	5,570,000	270,000

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Notes and General Obligation Bonds	Balance Outstanding January 1, 2009	Additions	Reductions	Balance Outstanding December 31, 2009	Current Portion
2006 Note, 3.85% interest, varying principal annual payments of \$ 218,400 to \$ 286,400 due in 2014	\$ 1,561,600	\$ -	\$ 236,800	\$ 1,324,800	\$ 244,400
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	9,759,668	-	123,800	9,635,868	131,000
2007 Taxable General Obligation Note, semiannual accretion to produce yields of 6.66% to 6.99%, payable in increasing installments of \$ 2,075,000 in 2021 to \$ 7,040,000 in 2036	14,773,981	-	-	14,773,981	-
2007 Taxable General Obligation Note, 5.62% to 5.77%, payable in varying annual installments of \$ 5,000 in 2008 to \$ 45,000 in 2021	7,985,000	-	30,000	7,955,000	35,000
2008 Taxable General Obligation Bond, 3.00% to 3.7%, payable in varying annual installments of \$ 5,000 in 2008 to \$ 315,000 in 2018	6,660,000	-	655,000	6,005,000	860,000
2009 Tax-Exempt General Obligation Bond, 4.13% interest, serial portion payable in increasing annual installments of \$ 261,000 in 2010 to \$ 465,000 in 2024	<u>-</u>	<u>5,310,000</u>	<u>-</u>	<u>5,310,000</u>	<u>261,000</u>
Total Notes and General Obligation Bonds	91,935,249	5,310,000	2,575,600	94,669,649	3,131,400
Discount on bond issuance	<u>1,090,656</u>	<u>-</u>	<u>65,559</u>	<u>1,025,097</u>	<u>-</u>
Total	<u>\$ 93,025,905</u>	<u>\$ 5,310,000</u>	<u>\$ 2,641,159</u>	<u>\$ 95,694,746</u>	<u>\$ 3,131,400</u>

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Of the \$ 95,694,746 of governmental notes and bonds outstanding at December 31, 2009, \$ 64,369,746 was used for capital acquisitions.

At December 31, 2009, the business-type activities' long-term debt consisted of the following:

Revenue Notes and Bonds	Balance Outstanding January 1, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2009</u>	Current <u>Portion</u>
1993 Guaranteed Water Revenue Bonds, 5.65% interest, one installment of \$ 775,000 due in 2010	\$ 775,000	\$ -	\$ 375,000	\$ 400,000	\$ 400,000
1993 Guaranteed Water Revenue Refunding Bonds, 5.65% interest, installment of \$ 330,000 due in 2010	330,000	-	160,000	170,000	170,000
1993 Guaranteed Sewer Revenue Bonds, 5.65% interest, one installment of \$ 645,000 due in 2010	645,000	-	315,000	330,000	330,000
2001 Guaranteed Water Revenue Bonds, 2.80% to 5.00% interest, serial portion payable in varying annual installments of \$ 1,270,000 in 2005 to \$ 110,000 in 2021	7,850,000	-	905,000	6,945,000	940,000
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	1,355,000	-	80,000	1,275,000	85,000
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	925,000	-	5,000	920,000	80,000
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	4,200,000	-	295,000	3,905,000	305,000

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Revenue Notes and Bonds	Balance Outstanding January 1, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2009</u>	Current Portion
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	\$ 2,230,000	\$ -	\$ 190,000	\$ 2,040,000	\$ 130,000
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	285,000	-	25,000	260,000	25,000
2006 Water Note, 3.85% interest, varying principal annual payments of \$ 327,600 to \$ 429,600 in 2014	2,342,400	-	355,200	1,987,200	366,600
2008 Guaranteed Water Revenue Bonds, 3.00% to 3.70% interest varying principal annual payments of \$ 615,000 in 2008 to \$ 30,000 in 2018	3,750,000	-	380,000	3,370,000	390,000
2008 Guaranteed Sewer Revenue Bonds, 3.00% to 3.70% interest, varying principal annual payments of \$ 530,000 in 2008 to \$ 490,000 in 2018	<u>5,750,000</u>	<u>-</u>	<u>465,000</u>	<u>5,285,000</u>	<u>485,000</u>
Total	<u>\$ 30,437,400</u>	<u>\$ -</u>	<u>\$ 3,550,200</u>	<u>\$ 26,887,200</u>	<u>\$ 3,706,600</u>

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Debt service requirements to maturity, including interest of \$ 105,308,835, are as follows:

<u>Year Ending</u>	<u>Business- Type Activities</u>	<u>Governmental Activities</u>	<u>Total</u>
2010	\$ 4,777,309	\$ 7,064,903	\$ 11,842,212
2011	4,577,699	7,062,121	11,639,820
2012	4,581,987	7,057,327	11,639,314
2013	4,293,325	7,061,086	11,354,411
2014	3,405,468	7,060,901	10,466,369
2015-2019	9,021,720	37,526,152	46,547,872
2020-2024	1,391,030	37,533,696	38,924,726
2025-2029	-	35,173,521	35,173,521
2030-2034	-	35,197,439	35,197,439
2035-2036	-	14,080,000	14,080,000
Total	<u>\$ 32,048,538</u>	<u>\$194,817,146</u>	<u>\$226,865,684</u>

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 City's financial statements.

At December 31, 2009, \$ 19,715,000 of general obligation bonds, \$ 3,205,000 of water revenue bonds and \$ 4,965,000 of sewer revenue 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>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2009</u>	<u>Current Portion</u>
Accrued vacation:					
Governmental activities	\$ 1,759,345	\$ 2,671,119	\$ 2,693,307	\$ 1,737,157	\$ 1,447,959
Business-type activities	<u>663,177</u>	<u>807,101</u>	<u>747,204</u>	<u>723,074</u>	<u>549,536</u>
Total accrued vacation	<u>\$ 2,422,522</u>	<u>\$ 3,478,220</u>	<u>\$ 3,440,511</u>	<u>\$ 2,460,231</u>	<u>\$ 1,997,495</u>
Capital leases:					
Governmental activities	\$ 1,907,720	\$ -	\$ 461,367	\$ 1,446,353	\$ 444,006
Business-type activities	<u>1,140,421</u>	<u>248,740</u>	<u>613,586</u>	<u>775,575</u>	<u>538,089</u>
Total capital leases	<u>\$ 3,048,141</u>	<u>\$ 248,740</u>	<u>\$ 1,074,953</u>	<u>\$ 2,221,928</u>	<u>\$ 982,095</u>

Within the governmental activities, the General Fund is typically used to liquidate the compensated absences and capital lease obligations.

The capital assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>
Machinery, equipment and vehicles	\$ 4,061,108	\$ 3,581,811
Less accumulated depreciation	<u>2,119,045</u>	<u>2,206,527</u>
	<u>\$ 1,942,063</u>	<u>\$ 1,375,284</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>
2010	\$ 515,044	\$ 567,690	\$ 1,082,734
2011	360,197	224,570	584,767
2012	246,956	22,271	269,227
2013	106,123	-	106,123
2014	106,123	-	106,123
2015 and thereafter	<u>318,369</u>	<u>-</u>	<u>318,369</u>
	1,652,812	814,531	2,467,343
Less interest	<u>206,459</u>	<u>38,956</u>	<u>245,415</u>
	<u>\$ 1,446,353</u>	<u>\$ 775,575</u>	<u>\$ 2,221,928</u>

DISCRETELY PRESENTED COMPONENT UNITS' LONG-TERM DEBT:

At December 31, 2009, the long-term debt of the discretely presented component units consisted of the following:

	<u>Balance January 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2009</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	\$ 2,745,000	\$ -	\$ 500,000	\$ 2,245,000	\$ 290,000
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	3,260,000	-	615,000	2,645,000	630,000
2005 Guaranteed Parking Revenue Bonds, 3.15% to 5.00% interest, serial portion payable in increasing annual installments of \$ 235,000 in 2006 to \$ 730,000 in 2035	11,580,000	-	235,000	11,345,000	245,000

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

	Balance January 1, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2009</u>	<u>Current Portion</u>
2007 Parking Revenue Bond, 4.20%, serial portion payable in increasing annual installments of \$ 70,000 in 2010 to \$ 275,000 in 2031	\$ 3,500,000	\$ -	\$ -	\$ 3,500,000	\$ 70,000
2009 Parking Revenue Bond, total available \$ 1,200,000 interest only at variable rates equal to one-month LIBOR rate plus 2.10% until July 2010, then quarterly principal and interest at a fixed rate equal to the lender's five year cost of funds through June 2010	-	304,606	-	304,606	49,212
Note payable to PA Minority Business Development Authority; payable interest only at 1.50% in semiannual installments of \$ 2,250; principal balance due at maturity in January 2012; proceeds used to establish a revolving loan fund to stimulate creation, retention and expansion of minority-owned businesses; one loan has been issued to an area company at June 30, 2008	300,000	-	-	300,000	-
Mortgage payable to National Penn Bank for the construction of a 87,500 square foot building; secured by a shared first mortgage lien on the property located at 601 South 10th Street; payable for a three-year term with interest only monthly payments and principal due upon the sale of the condominium units with all payments made first to the construction loan until paid in full and then to the secured loan	2,066,681	-	1,259,534	807,147	-

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

	Balance January 1, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2009</u>	<u>Current Portion</u>
Mortgage payable to Commonwealth Financing Authority for site improvements in development of the South 10th Street project; secured by shared first lien with bank on tract of land at Bridgeworks; all principal and interest payments deferred, and no interest accrues until sale or lease of site or subdivided portion; upon sale of any portion, proceeds shall be applied to reduce principal amount of loan; then interest accrues at 3%, and level monthly payments of principal and interest begin to fully amortize loan by maturity date of November 2026; an agreement of sale for a portion of the commercial building under construction is in effect at June 30, 2007	\$ 370,961	\$ -	\$ 365,573	\$ 5,388	\$ -
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>3,776,817</u>	<u>-</u>	<u>83,722</u>	<u>3,693,095</u>	<u>97,176</u>
Total long-term debt	27,599,459	304,606	3,058,829	24,845,236	1,381,388
Less unamortized deferred costs of refunding	<u>278,764</u>	<u>-</u>	<u>40,886</u>	<u>237,878</u>	<u>40,886</u>
	<u>\$ 27,320,695</u>	<u>\$ 304,606</u>	<u>\$ 3,017,943</u>	<u>\$ 24,607,358</u>	<u>\$ 1,340,502</u>

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The Allentown Parking Authority has a \$ 1,000,000 line of credit with a bank at the bank's floating taxable prime rate, which was 3.250% at December 31, 2009. At December 31, 2009, \$ 340,853 was outstanding on the line of credit.

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

Debt service requirements to maturity, including interest of \$ 12,555,619, 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>
2010	\$ 2,142,767	\$ 319,579	\$ 2,462,346
2011	2,224,183	1,115,673	3,339,856
2012	2,227,247	605,092	2,832,339
2013	2,167,880	302,842	2,470,722
2014	1,373,131	302,842	1,675,973
2015-2019	5,809,763	3,356,729	9,166,492
2020-2024	5,110,931	-	5,110,931
2025-2029	5,179,954	-	5,179,954
2030-2034	4,395,742	-	4,395,742
2035	<u>766,500</u>	<u>-</u>	<u>766,500</u>
Total	<u>\$ 31,398,098</u>	<u>\$ 6,002,757</u>	<u>\$ 37,400,855</u>

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>2009</u>	<u>2008</u>
Accrued claims liability, January 1,	\$ 2,244,630	\$ 1,728,538
Incurring claims (including estimated claims incurred but not reported as of December 31):		
Provision for current year events	1,399,866	2,552,687
Payments	<u>(2,051,729)</u>	<u>(2,036,595)</u>
Accrued claims liability, December 31	<u>\$ 1,592,767</u>	<u>\$ 2,244,630</u>
Current portion	<u>\$ 1,592,767</u>	<u>\$ 2,244,630</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. The City estimates all the accrued claims liability will be liquidated by December 31, 2010.

10. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

PLAN DESCRIPTION:

The City provides healthcare coverage for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. Eligible retirees may elect to enroll in the healthcare coverage provided to active employees. The plan provides health care, prescription drug, dental and vision coverage for the retiree, spouse and dependents until Medicare eligibility (normally age 65). Retirees contribute 25% of the monthly healthcare premiums established by the City.

FUNDING POLICY AND ANNUAL OPEB COST:

The City retiree healthcare plan is a self-funded program, which retiree premiums are determined annually based on comparable premium rates offered by health insurance providers. The cost of the benefits provided by the plan is currently being paid by the City on a pay-as-you-go basis.

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The City's annual other post-employment benefit (OPEB) cost expense for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The City's annual OPEB cost for the current year and the related information for each plan is as follows:

Annual required contribution (ARC)	\$ 3,734,207
Interest on net OPEB obligation	81,851
Adjustment to the annual required contribution	<u>(120,485)</u>
Annual OPEB cost	3,695,573
Contributions made	<u>1,823,595</u>
Increase in net OPEB obligation	1,871,978
Net OPEB obligation, beginning of year	<u>2,046,279</u>
Net OPEB obligation, end of year	<u><u>\$ 3,918,257</u></u>

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan and the net OPEB obligation for 2009 for each of the plans were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2009	\$ 3,695,573	49%	\$ 3,918,257

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

FUNDED STATUS AND FUNDING PROGRESS:

The funded status of the plan as of January 1, 2009, the most recent actuarial valuation, was as follows:

Actuarial Present Value at Attained Age (APVAA):	
Active members	\$45,911,315
Retired members	<u>23,464,204</u>
Total APVAA	<u>\$69,375,519</u>
Unfunded Actuarial Accrued Liability (UAAL):	
Active members	\$27,642,909
Retired members	<u>23,464,204</u>
Total AAL	<u>\$51,107,113</u>

Actuarial Value of Assets (AVA)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability (Funding Excess) as a Percentage
\$ -	\$51,107,112	- %	\$41,978,980	104%

Annual required contribution (ARC):	
Normal cost	\$ 1,786,737
30-year amortization of UAAL	<u>1,947,470</u>
Total ARC	<u>\$ 3,734,207</u>

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required Schedules of Funding Progress presented as supplementary information provide multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS:

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions are as follows:

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of pay
Remaining amortization period	28 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	4% per annum
Projected salary increases	3.5% per year due to inflation plus 1.5% due to merit
Healthcare inflation rate	Declining scale from an 12% increase for 2010, decreasing 0.5% per year to a 5% increase for 2015 and later

11. DEFICIT FUND BALANCES

The deficit fund balance of \$ 565,045 at December 31, 2009 in the Trexler Fund was created due to an advance to the Capital Projects Fund and a delay in recognition of grant revenue. This deficit balance will resolve itself in 2010 as grant revenues are received.

12. 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, 2009, 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.

13. NEW ACCOUNTING PRONOUNCEMENT

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

The GASB has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent. Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required. This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

14. SUBSEQUENT EVENT

The City has evaluated subsequent events through June 25, 2010. This date is the date the financial statements were available to be issued. No material events subsequent to December 31, 2009 were noted.

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