

# CITY OF ALLENTOWN

Pennsylvania

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



**GARRET H. STRATHEARN**  
**DIRECTOR OF FINANCE**

For the year ended  
December 31, 2012

**CITY OF ALLENTOWN, PENNSYLVANIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2012**



**MAYOR**

Ed Pawlowski

**CITY COUNCIL**

Julio A. Guridy, President  
Ray O'Connell, Vice President  
Joseph Davis  
Jeanette Eichenwald  
Jeff Glazier  
Cynthia Y. Mota  
Peter G. Schweyer

**CITY CONTROLLER**

Mary Ellen Koval

**CITY SOLICITOR**

Jerry A. Snyder, Esq.

Garret H. Strathearn, Director of Finance  
Beth A. Mohylsky, Manager of Treasury and Accounting Operations

Maher Duessel, Certified Public Accountants

**This Report was prepared by  
The Department of Finance  
Garret H. Strathearn, Director of Finance  
Beth A. Mohylsky, Manager of Treasury and Accounting Operations**

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

## **GENERAL**

The City of Allentown is the county seat of Lehigh County and, with 118,032 residents, according to the U. S. Census Bureau 2010 estimate, ranks as Pennsylvania's third largest city. The Allentown-Bethlehem Metropolitan Statistical Area, comprised of Carbon, Lehigh and Northampton counties is the third largest urbanized area in the Commonwealth, with population estimated at 712,481. Only the Philadelphia and Pittsburgh areas have more residents. The City is strategically located within a 300-mile radius of the larger metropolitan areas on the eastern seaboard of the United States.

## **CITY GOVERNMENT**

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

## **INDUSTRIES/LABOR FORCE**

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

## **TRANSPORTATION**

Interstate 78, U.S. Routes 22, 222 and 309 and several state highways radiate from the City and the Lehigh Valley and provide access to the major markets and ports of the East. The Northeast Extension of the Pennsylvania Turnpike is located approximately three miles west of the City. Railroads serving the Lehigh Valley area include the Consolidated Rail Corporation and the Canadian Pacific Railroad. Conrail has a large classification yard in the Allentown area.

## **AMENITIES**

The City of Allentown is home to a variety of cultural, recreational and educational facilities including two colleges, a AAA minor league baseball stadium, multiple museums, theater companies, orchestras, and bands. The City maintains 2,000 acres of park land, well above the national average. In 2012, construction began on 5 major downtown Allentown projects. These projects include: expansion of the Butz building; the new construction of the hockey arena/entertainment facility; One City Center, the Arena office building; the Arena Hotel; and Two City Center – Center Square Office, future Headquarters of National Penn Bank Corp.

# CITY OF ALLENTOWN, PENNSYLVANIA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2012

### TABLE OF CONTENTS

#### **INTRODUCTORY**

Transmittal Letter – Director, Department of Finance and Manager, Treasury & Accounting Operations	i
Certificate of Achievement for Excellence in Financial Reporting	iv
Organization Chart	v

#### **FINANCIAL**

Independent Auditor’s Report	1
Management’s Discussion and Analysis	4

#### **BASIC FINANCIAL STATEMENTS**

##### Government-wide Financial Statements:

Statement of Net Position	22
Statement of Activities	24

##### Fund Financial Statements:

Balance Sheet – Governmental Funds	26
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	27
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	29
Statement of Net Position – Proprietary Funds	30

# CITY OF ALLENTOWN, PENNSYLVANIA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2012

### TABLE OF CONTENTS

(Continued)

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	34
Statement of Cash Flows – Proprietary Funds	36
Statement of Fiduciary Net Position – Fiduciary Funds	38
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	39
Statement of Net Position – Component Units	40
Statement of Activities – Component Units	42
Notes to Financial Statements	43

### **REQUIRED SUPPLEMENTARY INFORMATION**

Budgetary Comparison Schedule – Budgetary Basis – General Fund	96
Notes to Budgetary Comparison Schedule	101
Schedules of Funding Progress	102
Schedules Employer’s Contributions	104
Actuarial Information	105

# CITY OF ALLENTOWN, PENNSYLVANIA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2012

### TABLE OF CONTENTS (Continued)

#### **SUPPLEMENTARY INFORMATION**

##### COMBINING STATEMENTS AND SCHEDULES:

###### Other Non-major Governmental Funds:

Combining Balance Sheet	106
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	107
Budgetary Comparison Schedule – Budgetary Basis – Capital Projects Fund	109
Budgetary Comparison Schedule – Budgetary Basis – Liquid Fuels Fund	110
Budgetary Comparison Schedule – Budgetary Basis – Debt Service Fund	111
Combining Schedules of Changes in Assets and Liabilities – Agency Funds	112

#### **STATISTICAL**

Contents	113
Net Position by Component	114
Changes in Net Position	115
Governmental Activities Tax Revenues by Source	117
Fund Balances of Governmental Funds	118
Changes in Fund Balances of Governmental Funds	119

# CITY OF ALLENTOWN, PENNSYLVANIA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2012

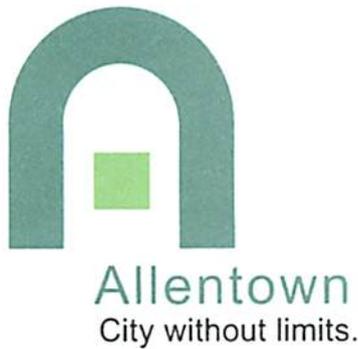
### TABLE OF CONTENTS

(Continued)

Assessed Value and Estimated Actual Value of Taxable Property	120
Property Tax Rates	121
Principal Property Taxpayers	122
Property Tax Levies and Collections	123
Ratios of Outstanding Debt by Type	124
Ratios of General Bonded Debt Outstanding	125
Direct and Overlapping Governmental Activities Debt	126
Legal Debt Margin Information	127
Pledged-Revenue Coverage	128
Demographic and Economic Statistics	129
Principal Employers	130
Full-time Equivalent Employees by Function	131
Operating Indicators by Function	132
Capital Asset Statistics by Function	134

### **APPENDIX**

Financial Management Policies	135
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July 31, 2013

Honorable Mayor and Members of City Council  
Allentown, Pennsylvania

The Comprehensive Annual Financial Report (CAFR) of the City of Allentown, Pennsylvania (City), for the fiscal year ended December 31, 2012 is submitted herewith. This report was prepared by the City's Department of Finance. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain maximum understanding of the City's financial affairs have been included.

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

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

## FINANCIAL INFORMATION

Internal Controls: Management of the City is responsible for establishing and maintaining an internal control designed to ensure that the assets of the City are protected from loss, theft, or misuse, and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control is designed to provide reasonable, but not absolute,

assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. The CAFR includes Management's Discussion and Analysis (MD&A) that provides an analysis of the City's financial condition for 2012.

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

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

## OTHER INFORMATION

**Independent Audit:** The City's Administrative Code requires that an annual audit of the books of account, financial records, and transactions of the City be performed by independent certified public accountants. The accounting firm of Maher Duessel, Certified Public Accountants was selected by City Council in 2011 to perform the annual audit for fiscal years 2010 through 2012. In addition, various bond indentures also require such an audit. The City has complied with this requirement and the auditors' opinion has been included in this report.

**Initiatives for the Year:** 2012 was a year of major economic development and expansion for the City both within and beyond its unique 130 acre Neighborhood Improvement Zone (NIZ). Under state legislation passed in 2009 & 2011, the City is allowed to use certain tax revenues to rebuild its downtown core and waterfront areas which will in turn spur millions of dollars of investment in new job creating economic development projects. The NIZ stretches from the City's center to the Lehigh River waterfront. In 2012, construction began on 5 major downtown Allentown projects that are fully funded at over \$400MM. These projects include: expansion of the Butz building; the new construction of the hockey arena/entertainment facility; One City Center, the Arena office building; the Arena Hotel; and Two City Center – Center Square Office, future Headquarters of National Penn Bank Corp. The Arena will be the home of the Philadelphia Flyers affiliated American Hockey League (AHL) Phantoms. It will seat 8,500 for hockey and 10,000 for concerts. This is the first venue of its kind in the Lehigh Valley. The Phantoms will begin playing in their new

home in Fall, 2014. These projects alone will account for a significant material increase in property tax ratables (except for the Arena) as well 1000 new jobs for the City, beginning in 2014 going through 2015 and beyond.

Most importantly in 2012, the City initiated a specific program to eliminate the most serious financial problem threatening its future: its *enormous* unfunded pension liability. After much research and study, the City decided to use a concession lease financing mechanism of its water and sewer operations in order to generate an upfront concession fee large enough to address this unfunded liability head-on. Throughout the entire year, staff, along with legal and financial consultants, labored on drafting a competitive agreement that would both meet the needs of what the city was trying to accomplish while protecting the citizens of Allentown in terms of: rate-paying, safe water consumption and environmental compliance - while still allowing the successful concessionaire to be a financially sound and stable partner for 50 years. The positive economic impact of this will secure Allentown's financial future for decades to come once it closes in August, 2013.

Throughout 2012 violent crime continued to decrease – following the dramatic drop that started in 2006. The City has been awarded several major U.S. Department of Justice grants and is employing technology such as multiple remote cameras sites to assist the Police Department. Again, in 2012, the City's Fire Department continued its leadership in emergency management situations and training thus maintaining the City's position as a regional pacesetter in the emergency management arena.

2012 saw City General Fund revenues continue to be significantly impacted by the general economy. Management continued significant cost containment measures to address this.

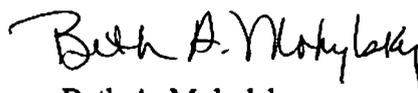
Acknowledgments: The timely preparation of the comprehensive annual financial report was made possible by the dedicated service of the entire staff of the Department of Finance. We would especially like to express our appreciation to the following staff members who assisted and contributed so significantly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

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

Sincerely,



Garret H. Strathearn  
Director of Finance



Beth A. Mohylsky  
Manager, Treasury & Accounting

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Allentown  
Pennsylvania

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2011

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

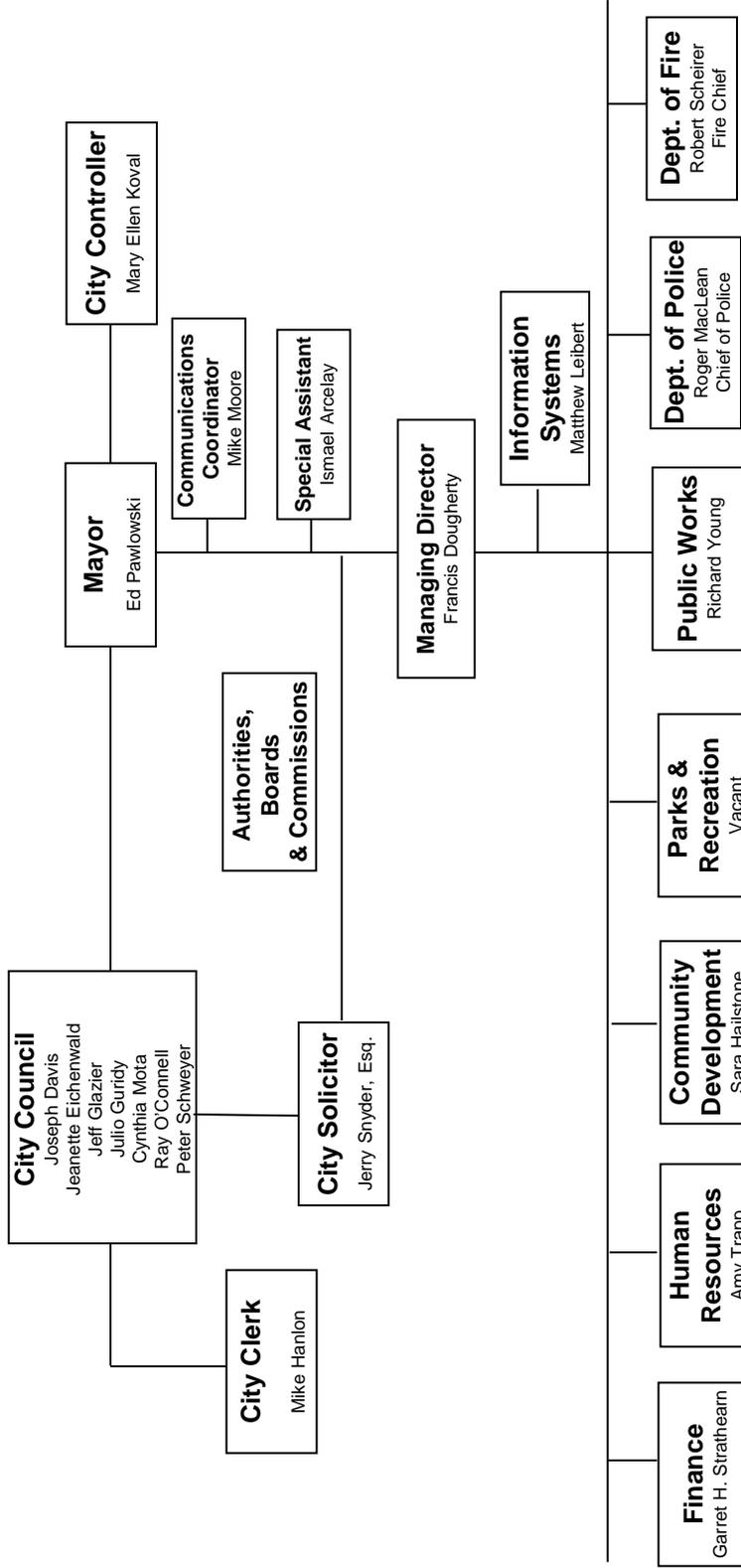


*Christopher P. Mouill*  
President

*Jeffrey R. Egan*  
Executive Director

# City of Allentown

## 2012 Organizational Chart



## Independent Auditor's Report

The Honorable Ed Pawlowski, Mayor,  
and Members of City Council  
City of Allentown, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Allentown, Pennsylvania (City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Redevelopment Authority of the City of Allentown and the Allentown Parking Authority, which represent 100% of the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Redevelopment Authority of the City of Allentown and the Allentown Parking Authority were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedules of funding progress and employer contributions on pages 4 through 21 and 96 through 105 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Maher Duessel*

Harrisburg, Pennsylvania  
July 26, 2013

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

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**INTRODUCTION**

This Management Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the City of Allentown (City) for the year ended December 31, 2012. 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, 2012. Additional information is provided in the Transmittal Letter preceding this MD & A which can be found on pages i-iii 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 2012, the City's total net position increased by \$3,310,359. The net position of governmental activities increased \$954,623 and the net position of business-type activities increased \$2,355,736. The increase in the governmental net position was primarily due to the increase in earned income tax revenue. The increase in the business-type activities was due to the increase of metered water and sewer charges, an increase in operating grants in the Solid Waste fund as well as an increase in capital contributions to the Water and Golf funds.

Property tax rates remained at 17.53 mills in 2012.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of this report consists of four parts:

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

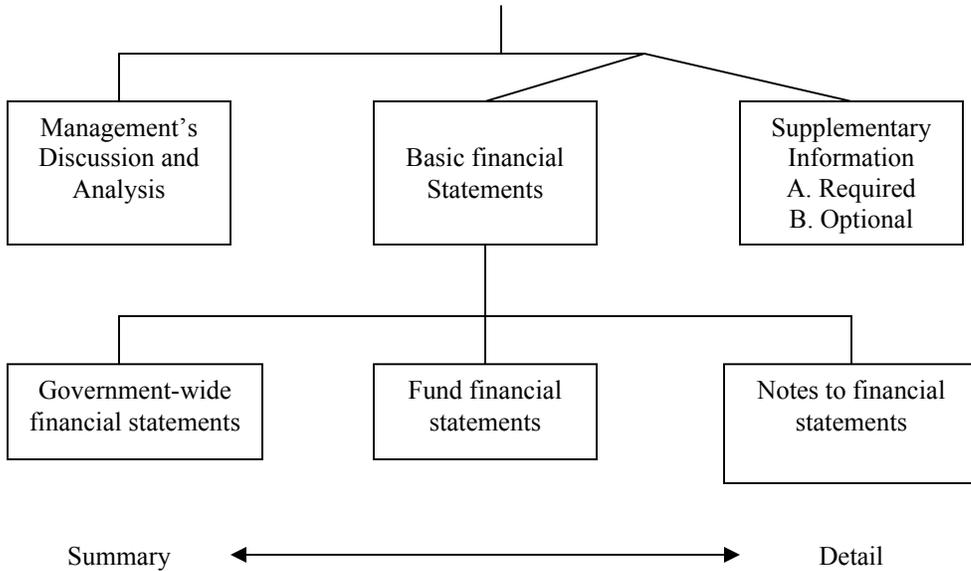
Management's discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand City government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial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

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

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 position includes all of the City's assets and liabilities, except fiduciary funds, with the difference between the two reported as net position. 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 position 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 related to a particular program), it shows to what extent each program has had to rely on local taxes for funding.

All changes to the net position 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 position is one way to measure the City's financial position. Over time, increases or decreases in the City's net position 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 two discretely presented component units including the Allentown Parking Authority and the Redevelopment Authority of the City of Allentown.

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 position of the governmental activities differs from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Capital assets are reported as expenditures when financial resources (monies) are expended to purchase or build assets in the fund financial statements. Likewise, the financial

resources that may have been borrowed are considered revenue when they are received in the fund financial statements. Principal and interest payments are both considered expenditures when paid in the fund financial statements. Depreciation is not calculated as it does not provide or reduce current financial resources in the fund financial statements.

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 position:

- 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 position balances as follows:
  - Net investment in capital assets
  - Restricted net position 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 position is net position that does 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. Governmental fund financial statements are reported using current financial resources and modified accrual accounting established by the Governmental 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, Revolving Loan, Debt Service, Capital Projects, Trexler, and E-911) 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 position 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 for the general fund presented as required supplementary information. Budgetary comparisons for the capital projects fund, liquid fuels fund, and debt service fund are presented as supplementary information.

- *Proprietary funds* report business-type programs and activities that charge fees designed to cover the cost of providing services. They report using the full accrual basis of accounting.
- *Fiduciary funds* are funds for which the City is the trustee or fiduciary. These include the Officers and Employees Pension Fund, the Policemen's Pension Fund, the Firemen's 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 position and a statement of changes in fiduciary net position. 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 Position

The City's total assets were \$254.2 million at December 31, 2012. Of this amount, \$187.9 million was capital assets, including infrastructure and construction in progress. Prior to the adoption of GASB No. 34 in 2003, infrastructure (roads, bridges, etc.) had not been reported or depreciated in governmental financial statements.

GASB No. 34 required that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements, but allowed infrastructure to be added over several years. The City believes it has included all infrastructure in the 2012 financial statements.

City of Allentown, Pennsylvania  
Management's Discussion and Analysis

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 27,942,973	\$ 29,860,739	\$ 25,491,184	\$ 25,780,152	\$ 53,434,157	\$ 55,640,891
Capital assets, net	100,290,092	96,020,043	87,609,231	85,061,227	187,899,323	181,081,270
Other non-current assets	11,365,685	9,567,551	1,487,555	1,708,151	12,853,240	11,275,702
<b>Total assets</b>	<b>\$139,598,750</b>	<b>\$135,448,333</b>	<b>\$114,587,970</b>	<b>\$112,549,530</b>	<b>\$254,186,720</b>	<b>\$247,997,863</b>
Current and other liabilities	\$ 20,909,467	\$ 17,294,942	\$ 8,518,590	\$ 7,483,111	\$ 29,428,057	\$ 24,778,053
Long-term liabilities	107,731,336	108,150,067	20,704,765	22,057,540	128,436,101	130,207,607
<b>Total liabilities</b>	<b>\$128,640,803</b>	<b>\$125,445,009</b>	<b>\$ 29,223,355</b>	<b>\$ 29,540,651</b>	<b>\$157,864,158</b>	<b>\$154,985,660</b>
Net position:						
Net investment in capital assets	\$ 32,494,392	\$ 30,108,596	\$ 68,128,410	\$ 64,695,490	\$100,622,802	\$ 94,804,086
Restricted	12,274,999	6,648,978			12,274,999	6,648,978
Unrestricted	(33,811,444)	(26,754,250)	17,236,205	18,313,389	(16,575,239)	(8,440,861)
<b>Total net position</b>	<b>\$ 10,957,947</b>	<b>\$ 10,003,324</b>	<b>\$ 85,364,615</b>	<b>\$ 83,008,879</b>	<b>\$96,322,562</b>	<b>\$93,012,203</b>

During 2012, the net position increased \$3.3 million or 3.6% to \$96.3 million. Of this amount, \$100.6 million represents the net balance of long-term capital assets and capital related long-term debt, while \$12.3 million is restricted for various purposes.

City of Allentown, Pennsylvania  
Management's Discussion and Analysis

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

The following statement of activities represents changes in net position for the year ended December 31, 2012. 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	
	2012	2011	2012	2011	2012	2011
<b>Program revenues:</b>						
Charges for services	\$ 12,129,498	\$ 12,532,704	\$ 46,078,461	\$ 45,488,277	\$ 58,207,959	\$ 58,020,981
Operating grants and contributions	13,496,058	13,696,509	1,630,127	828,291	15,126,185	14,524,800
Capital grants	5,654,879	5,335,856			5,654,879	5,335,856
<b>General revenues:</b>						
Taxes	57,041,497	51,955,525			57,041,497	51,955,525
Investment earnings	19,651	4,608			19,651	4,608
Unrestricted grants/chgs	10,216,783	12,298,352			10,216,783	12,298,352
<b>Total revenues</b>	<b>98,558,366</b>	<b>95,823,554</b>	<b>47,708,588</b>	<b>46,316,568</b>	<b>146,266,954</b>	<b>142,140,122</b>
<b>Expenses:</b>						
General government	16,164,160	13,916,289			16,164,160	13,916,289
Public safety	54,635,907	52,607,308			54,635,907	52,607,308
Community development	8,126,929	9,773,209			8,126,929	9,773,209
Public works	12,066,315	11,920,300			12,066,315	11,920,300
Health and sanitation	2,763,477	3,373,570			2,763,477	3,373,570
Parks and recreation	2,910,615	3,038,880			2,910,615	3,038,880
Interest long-term debt	5,331,070	5,481,742			5,331,070	5,481,742
Water fund			10,999,925	11,308,214	10,999,925	11,308,214
Sewer fund			14,242,086	13,533,543	14,242,086	13,533,543
Municipal golf course			1,167,107	1,152,872	1,167,107	1,152,872
Solid waste fund			14,549,004	13,170,266	14,549,004	13,170,266
<b>Total expenses</b>	<b>101,998,473</b>	<b>100,111,298</b>	<b>40,958,122</b>	<b>39,164,895</b>	<b>142,956,595</b>	<b>139,276,193</b>
Change in net position before capital contributions and transfers	(3,440,107)	(4,287,744)	6,750,466	7,151,673	3,310,359	2,863,929
Transfers	4,394,730	5,071,076	(4,394,730)	(5,071,076)		
Change in net position	954,623	783,332	2,355,736	2,080,597	3,310,359	2,863,929
Net position beginning	10,003,324	9,219,992	83,008,879	80,928,282	93,012,203	90,148,274
Net position ending	\$ 10,957,947	\$ 10,003,324	\$ 85,364,615	\$ 83,008,879	\$96,322,562	\$93,012,203

Total government-wide revenues of \$146.2 million came primarily from charges for services of \$58.2 million, representing 39.8 percent of the total. Taxes at \$57 million made up the second largest source at 39 percent, followed by operating and capital grants, and contributions of \$20.8 million, or 14.2 percent, and other revenue sources made up the remaining 7 percent.

Total expenses for all programs in 2012 were \$143 million. The expenses cover a range of services, with the largest being public safety at \$54.6 million or 38.2 percent. The second largest program area was general government at \$16.2 million or 11.3 percent, followed by the solid waste fund at \$14.6 million or 10.2 percent, followed by the sewer fund at \$14.2 million or 9.9 percent, then public works at \$12.1 million or 8.5 percent, the water fund at \$11 million or 7.7 percent followed by community development at \$8.1 million or 5.7 percent, followed by interest on outstanding debt at \$5.3 million or 3.7 percent followed by parks and recreation at \$2.9 million or 2 percent, health and sanitation at \$2.8 million or 2 percent and golf course at \$1.2 million or 0.8 percent.

General tax revenue increased by \$5.1 million from 2011 to 2012 primarily due to an increase in the earned income tax rate from 1 percent to 1.35 percent. Unrestricted grants decreased \$2.1 million from 2011 to 2012 largely due to a one time increased distribution of state aid in 2011.

General Government expenses increased \$2.3 million, which was due to the increase of operating expenditures of the Capital Projects Fund, loss on disposal of capital assets, and an increase in other post-employment benefit costs. Public Safety expenses increased \$2 million due to expenses relating to the unfunded police and fire pension liability. Community development expenses decreased \$1.6 million due to a decrease in CDBG expenses overall.

The business-type charges for services increased \$.6 million due to the increase of metered water and sewer charges and a rate increase for trash collection.

The business-type expenses increased \$1.8 million due to an increase in total claims and benefits for risk management and increased costs for contracted services.

#### **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 2012, real estate and Act 511 taxes brought in \$57 million. There were \$10.2 million in grants and contributions not restricted to specific purposes. Table A-5 depicts the net program expenses for the years ended December 31, 2012 and 2011.

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

Program:	Total cost of services		Net cost of services	
	2012	2011	2012	2011
General government	\$16,164,160	\$13,916,289	\$10,678,672	\$8,644,159
Public safety	54,635,907	52,607,308	48,653,958	47,336,180
Community development	8,126,929	9,773,209	(173,549)	292,135
Public works	12,066,315	11,920,300	5,147,177	5,132,940
Health and sanitation	2,763,477	3,373,570	513,432	724,196
Parks and recreation	2,910,615	3,038,880	567,278	934,877
Interest on long-term debt	5,331,070	5,481,742	5,331,070	5,481,742
Water fund	10,999,925	11,308,214	(4,802,484)	(3,657,751)
Sewer fund	14,242,086	13,533,543	(272,983)	(2,240,711)
Municipal golf course	1,167,107	1,152,872	(1,438,241)	(179,202)
Solid waste fund	14,549,004	13,170,266	(236,758)	(1,074,009)
<b>Total expenses</b>	<b>\$142,956,595</b>	<b>\$139,276,193</b>	<b>\$ 63,967,572</b>	<b>\$ 61,394,556</b>

The City relied on real estate tax, Act 511 taxes and other general revenues to fund 47.1 percent of its governmental and business-type activities in 2012.

Property taxes and other general revenues covered 66 percent of general government spending with the remainder coming from grants and fees for specific services. Nearly 89 percent of public safety spending came from the property tax and other general revenues with the remainder coming from grants, fines, and court costs. Community development costs were fully funded 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 42.7 percent coming from local property taxes and other general revenues. Health and sanitation received all but 18.6 percent of its revenue from program revenues, 80.6 percent of which was in the form of grants. Parks and recreation expenses were covered 80.5 percent by program revenues with the remainder coming from property tax and other general revenues.

Operations of the water, sewer, solid waste, and municipal golf course fund are entirely funded through charges and fees for services.

### Capital Assets

The City's investment in capital assets at December 31, 2012, net of accumulated depreciation, was \$187.9 million. Capital assets consist primarily of land, buildings, equipment, and infrastructure. Table A-6 is a summary of capital assets at December 31, 2012 and 2011.

City of Allentown, Pennsylvania  
Management's Discussion and Analysis

**Table A-6: Capital assets at December 31, 2012 and 2011**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land and land improvements	\$ 8,409,945	\$ 8,409,945	\$ 3,759,049	\$ 3,759,049	\$ 12,168,994	\$ 12,168,994
Buildings and improvements	39,457,662	37,763,491	30,430,688	32,410,414	69,888,350	70,173,905
Vehicles, machinery and equipment	16,693,744	16,173,635	14,682,999	11,615,343	31,376,743	27,788,978
Distribution and collection systems			38,736,495	37,276,421	38,736,495	37,276,421
Infrastructure	35,728,741	33,672,972			35,728,741	33,672,972
<b>Total</b>	<b>\$ 100,290,092</b>	<b>\$ 96,020,043</b>	<b>\$ 87,609,231</b>	<b>\$ 85,061,227</b>	<b>\$187,899,323</b>	<b>\$181,081,270</b>

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

**Debt Administration**

**Long-term debt:**

At December 31, 2012, the City had \$127.2 million of debt outstanding, including bonds, notes, and capital leases. This was a net decrease of \$3.4 million from the previous year. Table A-7 provides a summary of outstanding debt.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Capital lease	\$ 654,732	\$ 906,186	644,817	\$ 465,098	\$ 1,299,549	\$ 1,371,284
Bonds and notes	72,470,151	73,709,019	20,976,200	24,900,200	93,446,351	98,609,219
Loan			2,140,123		2,140,123	
Pension obligation bonds	30,280,000	30,555,000			30,280,000	30,555,000
<b>Total</b>	<b>\$103,404,883</b>	<b>\$105,170,205</b>	<b>\$23,761,140</b>	<b>\$25,365,298</b>	<b>\$127,166,023</b>	<b>\$130,535,503</b>

In 2012, the City issued \$5.9 million in general obligation bonds and refunded \$5.3 million in general obligation bonds. Also in 2012, the City entered into two loan agreements with PennVest for water main repairs and an automatic meter project. The amount drawn down on these loans was \$2.1 million in 2012.

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, 2012 was approximately \$207.4 million, and the total debt outstanding was \$103.4 million, which is below the legal debt limit. The City's net non-electoral

and lease rental debt limit at December 31, 2012 was approximately \$290.3 million and the total debt outstanding was \$73.1 million. For computation purposes, the \$103.4 million has been reduced by \$30.3 million, which is the outstanding balance of the 2004 GO bond issue used to finance the City's pension funding liability as allowed by statute.

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

### **Bond rating**

The City is rated A3 with a negative outlook by Moody's Investors Service and BBB+ with a stable outlook by S&P.

## **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, unassigned 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, debt service fund, and capital projects fund. The general fund is the chief operating fund for the City. Special revenue funds are restricted to specific legislated use. The debt service fund is used to record the funding and payment of principal and interest on the issuance of debt in the governmental funds. 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.

City of Allentown, Pennsylvania  
Management's Discussion and Analysis

**Governmental fund revenues**

Governmental fund revenues by source for the years ended December 31, 2012 and 2011 were as follows. Table A-8 also presents changes from 2011 to 2012.

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

	2012	2011	Changes from 2011 to 2012	Percent change
Revenues:				
Taxes	\$55,787,638	\$52,770,021	\$3,017,617	5.7
Licenses and permits	5,250,576	5,030,946	219,630	4.4
Charges for services	4,898,943	4,824,140	74,803	1.6
Fines and forfeits	634,724	518,350	116,374	22.5
Investment earnings	19,686	4,608	15,078	327.2
Intergovernmental revenues	26,927,447	28,695,423	(1,767,976)	(6.2)
Other	3,945,339	4,906,361	(961,022)	(19.6)
Total revenues	\$97,464,353	\$96,749,849	\$714,504	.7

Governmental fund revenues totaled \$97.4 million for the year ended December 31, 2012. This is an increase of \$714 thousand from 2011, primarily due to an increase in the earned income tax of \$2.9 million as a result of a full year at the 2011 rate increase from 1 percent to 1.35 percent. Intergovernmental revenue decreased \$1.8 million due to a decrease in CDBG grant revenue. Other revenues decreased \$.9 million due to a sale of city property in 2011, which did not reoccur in 2012, in addition to a decrease in 911 wireline and wireless charges.

**Governmental fund expenditures**

Governmental fund expenditures by function for the years ended December 31, 2012 and 2011 were as follows. Table A-9 also presents changes from 2011 to 2012.

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

	2012	2011	Changes from 2011 to 2012	Percent change
Expenses:				
General government	\$ 14,417,230	\$ 13,765,436	\$ 651,794	4.7
Public safety	53,491,745	50,839,312	2,652,433	5.2
Community development	7,835,133	9,731,882	(1,896,749)	(19.5)
Public works	9,658,216	9,631,143	27,073	.3
Health and sanitation	2,673,529	2,809,068	(135,539)	(4.8)
Parks and recreation	2,467,730	2,467,866	(136)	0
Debt service:				
Principal	3,395,750	6,514,100	(3,118,350)	(47.9)
Interest	4,180,843	4,423,008	(242,165)	(5.5)
Capital outlay	10,610,482	9,912,486	697,996	7.0
Total expenses	\$ 108,730,658	\$ 110,094,301	(\$1,363,643)	(1.2)

The City maintains eight 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 and capital projects fund which are considered major funds. Non-major funds which include the liquid fuels fund, the CDBG (community development block grant) fund, revolving loan fund, the debt service fund, the Trexler fund, and the E-911 fund, are presented separately in the combining balance sheet - other non-major governmental funds and in the combining statement of revenues, expenditures, and changes in fund balance – other non-major governmental funds.

Governmental fund expenditures totaled \$108.7 million for the year ended December 31, 2012, a decrease of 1.2 percent from 2011. This change was primarily due to a decrease in debt service payments as well as Community Development Block Grant activity.

The increase in general government expenditures was due to the increased activity in Capital Projects Fund and pass-thru grant expenditures.

The 2.7 million change in Public Safety is related to increased personnel costs, increased activity in pass-thru grant expenditures and expenses relating to the unfunded pension liability.

The \$1.9 million decrease in Community development is attributed to a reduction of Community Development Block Grant related expenditures in 2012.

The \$3.1 million decrease in Debt principal related to the issuance and refunding of general obligation bonds in 2011.

### Governmental fund balances and net position of enterprise funds

Table A-10 reflects ending fund balances for governmental funds and the net position for proprietary funds at December 31, 2012 and 2011.

**Table A-10: Ending fund balances, governmental funds  
 Net position, enterprise funds**

	2012		2011	
	Governmental funds	Enterprise funds	Governmental funds	Enterprise funds
General	\$ (741,172)		\$ 1,920,546	
Liquid Fuels Fund	1,174,362		789,145	
Community Development Block Grant	4,603,697		4,577,247	
Trexler	(29,306)		(96,134)	
Capital Projects	3,373,173		7,726,559	
E-911	632,705		375,418	
Revolving Loan	1,096,885		760,168	
Water Fund		\$ 51,432,733		\$ 48,211,695
Sewer fund		21,866,075		23,628,693

City of Allentown, Pennsylvania  
 Management's Discussion and Analysis

Municipal golf course		2,853,479		2,764,449
Solid waste fund		9,212,328		8,404,042
	Total	\$10,110,344	\$85,364,615	\$16,052,949
				\$83,008,879

The City's governmental funds reported a combined fund balance of \$10.1 million at December 31, 2012. Of the total, \$4.6 million is restricted for CDBG projects, \$3.4 million is restricted for capital acquisitions, \$1.2 million is restricted for liquid fuels, \$1.1 million is restricted for the revolving loan fund, \$.6 million is restricted for the E-911 fund, and \$.6 million is restricted for pension benefits.

The general fund balance decrease of \$2.7 million is due to the general fund supporting expenses of the 911 fund and transfers for debt services.

The City's Capital Projects Fund balance decreased \$4.4 million as a result of an increase in spending on capital infrastructure projects.

The liquid fuels fund balance increased by \$.4 million due to a milder winter season.

The increase in the proprietary fund net position of \$2.4 million is due to an increase in rates for water, sewer, and solid waste funds; an increase in grant funding for solid waste; an increase in contributed capital offset by an increase in expenses of the solid waste fund related to the waste to energy grants and contracted services; and an increase in expenses of the sewer fund related to the leasing of the water and sewer systems.

**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 \$1.2 million during the year from the original budget of \$90.6 million to the final budget of \$91.8 million. Actual revenues were \$2.8 million below the final budget. This variance was partly due to the \$1.2 million decrease in estimated tax collections relating to Earned Income Tax, Local Services Tax and City Real Estate taxes. In addition, total charges for services and other income revenues were each \$.7 million lower than estimated largely due to a delay in the change of Emergency Services billing and budgeted miscellaneous income not received.

The general fund budget for expenditures increased \$3.4 million during the year from the original budget of \$82.3 million to the final budget of \$85.7 million. Actual expenditures were \$2.4 million lower than the amended budget. This was achieved by acknowledging the decline in revenue and putting general spending restraints in place.

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**

#### **LOCATION & DEMOGRAPHIC ADVANTAGES**

The City is the largest city in the four-county Allentown-Bethlehem-Easton Metropolitan Statistical Area and serves as the seat of Lehigh County. According to the 2010 Census, the City is home to 118,032 residents, thus making it the third largest city in Pennsylvania. The City recorded one of the fastest rates of growth of any municipality in the Commonwealth between the 2000 and 2010 Censuses. Also of note, the 2010 Census reported the City's Hispanic community grew by 93.6 % and now makes up 42.7% of the City's population, compared to 24.4% in 2000.

Known as "The City Without Limits", the City is strategically located within a 300 mile radius of the largest metropolitan areas on the eastern seaboard of the United States. Excellent transportation systems and close proximity to both New York and Philadelphia make it attractive to businesses and families desiring to live in a community that offers clean air, good water, diverse neighborhoods and over 2000 acres of the best municipal parks and recreation systems in the country – including a trout hatchery located in a serene wooded topography – *and* an award winning municipal golf course that hosted 47,000 rounds of golf in 2012.

#### **ECONOMIC DEVELOPMENT ACHIEVEMENTS**

The City has long served as the economic engine for the Lehigh Valley. The City is home to a number of major corporate headquarters, including international energy provider PPL (a Fortune 500 company). The City has the largest employment concentration in the region. Within the City's boundaries the Allentown School District and the government of Lehigh County combine to employ more than 4,800 people in the public sector.

Allentown is home to two nationally respected institutions of higher education: Muhlenberg College and Cedar Crest College. Together they have full-time enrollments of over 4,300 students and employment for over 3,300 personnel. Also, a branch campus of the Lehigh Carbon Community College is located in the heart of the City.

Major regional health care institutions employ more than 3,800 people within Allentown. Lehigh Valley Hospital, Sacred Heart Hospital and St. Luke's each maintain various acute-care facilities across the City.

2012 was a year of major economic development and expansion for the City both inside and beyond its unique 130 acre Neighborhood Improvement Zone (NIZ). Under state legislation passed in 2009 & 2011, the City is allowed to use certain tax revenues to rebuild its downtown core and waterfront areas which will in turn spur millions of dollars of investment in new job creating economic development projects. The NIZ stretches from the City's center to the Lehigh River waterfront. In 2012, construction began on 5 major downtown Allentown projects that are fully funded at over \$400MM. These projects include: expansion of the Butz building; the new construction of hockey arena/entertainment facility; One City Center, the Arena office building; the Arena Hotel; and Two City Center – Center Square Office, future Headquarters of National Penn Bank Corp. The Arena will be the home of the Philadelphia Flyers affiliated American Hockey League (AHL) Phantoms. It will seat 8,500 for hockey and 10,000 for concerts. This is the first venue of its kind in the Lehigh Valley. The Phantoms will begin playing in their new home in the Fall of 2014. These projects alone will account for close to 1000 new jobs in downtown Allentown beginning in 2014.

The City also continue to pursue residential and commercial development at multiple sites, including the expanded redevelopment of Hamilton Street in Center City Allentown through local initiatives and state & local partnerships such as Keystone Opportunity Zones (KOZ) and offering designated land parcels with a greatly reduced tax burden for residents and businesses. Effort continues to further expand potential development at other such critically important sites as the Queen City Airport and the former Allentown State Hospital.

In the area of infrastructure upgrading and development, the City implemented program of replacing over 35,000 water meters, the funding of which came from a previously secured low-interest PennVest loan and work on street upgrades continued.

Besides the government, corporate, education and health sector entities cited above that provide the primary base for the City's job market, over the years Allentown has also seen an increase in financial services employment; banking, 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. Along with what is noted above, the City and Lehigh County continue to seek ways to attract new businesses to the area. These new businesses stimulate 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 LSI have selected the area as their headquarters or as the location of principal facilities.

### **PROGRESS ON A MOST IMPORTANT FRONT**

Despite all of its successes in economic development a most challenging financial problem faced Allentown's future in 2012: its *enormous* unfunded pension liability. In 2012 the City Administration took definitive steps to correct this. After much research and study, the City decided to use a concession lease financing mechanism of its water and sewer operations in order to generate an upfront concession fee large enough to address the unfunded liability head-on. Throughout the entire year, staff along with legal and financial consultants labored on drafting a competitive agreement that would both meet the needs of what the city was trying to accomplish, while protecting the citizens of Allentown – in all aspects: rate-paying, safe water consumption and environmental compliance - while still allowing the successful concessionaire to be a financially sound and stable partner for 50 years. Not to pre-empt the 2013 audit, but it appears as though the City is well on its way to achieving all that it set out to do in this most important of efforts. This was a huge outside the box undertaking necessary to effectively solve a huge outside the box problem that if not solved, would have sunk the City. As of this writing, the Administration is most pleased with the results.

### **SUMMARY**

While most City expenses throughout 2012 remained relatively stable due to stringent monitoring and management practices, certain areas continue to increase at rates above the Consumer Price Index. These increases are a result primarily of increasing pension contribution costs. Revenue initiatives and cost control measures continue to be implemented in order to counter this situation. However, throughout 2012, the real problem still remained the City's extraordinarily high unfunded pension liability which in turn fuels the City's continuously growing mandatory minimum municipal obligation (MMO) payment that it must make each year into the pension plan. Hopefully as a result of efforts started in 2012 and continued in 2013, the City has been able to resolve this destructive problem in a way will result in a materially significant reduction in the City's MMO payments going forward for a *very* long time.

### **REQUESTS FOR INFORMATION**

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

# CITY OF ALLENTOWN, PENNSYLVANIA

## STATEMENT OF NET POSITION

DECEMBER 31, 2012

<u>Assets</u>	Primary Government		<u>Total</u>	<u>Component Units</u>
	Governmental Activities	Business-Type Activities		
Current assets:				
Cash and cash equivalents	\$ 6,051,494	\$ 11,688,031	\$ 17,739,525	\$ 963,123
Cash and cash equivalents - restricted	-	-	-	92,040
Investments - restricted	9,609,502	-	9,609,502	1,336,944
Receivables (net of allowance for uncollectible):				
Taxes	13,098,849	-	13,098,849	-
Accounts	1,779,400	8,451,866	10,231,266	160,802
Grants	2,716,613	-	2,716,613	-
Other current assets	-	-	-	2,119
Inventory	-	38,402	38,402	29,841
Prepaid expenses	-	-	-	262,637
Due from other governments	-	-	-	162,406
Internal balances	(5,312,885)	5,312,885	-	-
Total current assets	27,942,973	25,491,184	53,434,157	3,009,912
Noncurrent assets:				
Capital assets, net:				
Land	8,409,945	3,759,049	12,168,994	8,495,248
Buildings	6,140,138	15,188,462	21,328,600	-
Land and building improvements	13,239,939	15,242,226	28,482,165	32,185,568
Machinery and equipment	13,171,493	12,330,645	25,502,138	347,895
Vehicles	3,522,251	2,352,354	5,874,605	101,912
Distribution and collection systems	-	38,736,495	38,736,495	-
Construction in progress	20,077,585	-	20,077,585	11,354
Infrastructure	35,728,741	-	35,728,741	-
Total capital assets, net	100,290,092	87,609,231	187,899,323	41,141,977
Net pension asset	2,695,629	-	2,695,629	-
Loans and notes receivable	5,503,904	-	5,503,904	1,041,523
Property held for development	689,700	-	689,700	1,603,153
Other assets	2,476,452	1,487,555	3,964,007	239,765
Total noncurrent assets	111,655,777	89,096,786	200,752,563	44,026,418
<b>Total Assets</b>	139,598,750	114,587,970	254,186,720	47,036,330

(Continued)

# CITY OF ALLENTOWN, PENNSYLVANIA

## STATEMENT OF NET POSITION

DECEMBER 31, 2012

(Continued)

<b>Liabilities</b>	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
<b>Current liabilities:</b>				
Accounts payable and other current liabilities	5,963,618	3,153,879	9,117,497	454,246
Wages payable	931,720	206,630	1,138,350	-
Accrued interest payable	858,951	195,360	1,054,311	-
Claims liability	812,104	-	812,104	-
Other liabilities	3,744,345	231,378	3,975,723	90,030
Due to pension trust funds	1,503,059	-	1,503,059	-
Due to other governments	155,530	-	155,530	-
Compensated absences	2,467,824	856,872	3,324,696	-
Unearned revenue	477,302	-	477,302	366,081
Capital leases payable	120,614	132,871	253,485	68,103
Line of credit	-	-	-	340,853
Notes and bonds payable, current maturities	3,874,400	3,741,600	7,616,000	1,539,155
Total current liabilities	20,909,467	8,518,590	29,428,057	2,858,468
<b>Noncurrent liabilities:</b>				
Capital leases payable	534,118	511,946	1,046,064	268,892
Compensated absences	687,960	38,617	726,577	-
Unearned revenue	-	-	-	9,370,850
Other post-employment benefit liability	7,633,507	779,479	8,412,986	50,495
Notes and bonds payable	98,875,751	19,374,723	118,250,474	15,141,612
Total noncurrent liabilities	107,731,336	20,704,765	128,436,101	24,831,849
<b>Total Liabilities</b>	128,640,803	29,223,355	157,864,158	27,690,317
<b>Net Position</b>				
Net investment in capital assets	32,494,392	68,128,410	100,622,802	23,858,362
<b>Restricted for:</b>				
Capital acquisitions	3,373,173	-	3,373,173	-
Public works	1,174,362	-	1,174,362	-
Community development	5,844,282	-	5,844,282	980,040
Public safety	632,705	-	632,705	-
Pension benefits	1,250,477	-	1,250,477	-
Unrestricted	(33,811,444)	17,236,205	(16,575,239)	(5,492,389)
<b>Total Net Position</b>	\$ 10,957,947	\$ 85,364,615	\$ 96,322,562	\$ 19,346,013

(Concluded)

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

# CITY OF ALLENTOWN, PENNSYLVANIA

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

Functions/Programs:	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary government:</b>			
Governmental activities:			
General government	\$ 16,164,160	\$ 4,131,189	\$ 1,354,299
Public safety	54,635,907	3,627,974	2,339,618
Community development	8,126,929	3,325,198	4,511,026
Public works	12,066,315	189,821	2,120,384
Health and sanitation	2,763,477	436,682	1,813,363
Parks and recreation	2,910,615	418,634	1,357,368
Interest on long-term debt	5,331,070	-	-
Total governmental activities	101,998,473	12,129,498	13,496,058
Business-type activities:			
Water Fund	10,999,925	15,525,790	276,619
Sewer Fund	14,242,086	14,331,640	183,429
Solid Waste Fund	14,549,004	14,837,965	1,149,280
Municipal Golf Course	1,167,107	1,383,066	20,799
Total business-type activities	40,958,122	46,078,461	1,630,127
<b>Total primary government</b>	<b>\$ 142,956,595</b>	<b>\$ 58,207,959</b>	<b>\$ 15,126,185</b>
<b>Component units:</b>			
Redevelopment Authority of the City of Allentown	\$ 1,670,368	\$ 1,625,715	\$ 163,087
Allentown Parking Authority	5,084,515	5,510,021	-
<b>Total component units</b>	<b>\$ 6,754,883</b>	<b>\$ 7,135,736</b>	<b>\$ 163,087</b>

General revenues:

    Property taxes

    Act 511

    Utility realty

    Deed transfer tax

    Grants and contributions not restricted  
    to specific purposes

    Investment earnings

Transfers

Total general revenues and transfers

**Change in Net Position**

**Net Position:**

    Beginning of year

    End of year

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

Net (Expense) Revenue and  
Changes in Net Position

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
\$ -	\$ (10,678,672)	\$ -	\$ (10,678,672)	\$ -
14,357	(48,653,958)	-	(48,653,958)	-
464,254	173,549	-	173,549	-
4,608,933	(5,147,177)	-	(5,147,177)	-
-	(513,432)	-	(513,432)	-
567,335	(567,278)	-	(567,278)	-
-	(5,331,070)	-	(5,331,070)	-
<u>5,654,879</u>	<u>(70,718,038)</u>	<u>-</u>	<u>(70,718,038)</u>	<u>-</u>
-	-	4,802,484	4,802,484	-
-	-	272,983	272,983	-
-	-	1,438,241	1,438,241	-
-	-	236,758	236,758	-
<u>-</u>	<u>-</u>	<u>6,750,466</u>	<u>6,750,466</u>	<u>-</u>
<u>\$ 5,654,879</u>	<u>(70,718,038)</u>	<u>6,750,466</u>	<u>(63,967,572)</u>	<u>-</u>
\$ -	-	-	-	118,434
-	-	-	-	425,506
<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>543,940</u>
	29,729,895	-	29,729,895	-
	26,329,201	-	26,329,201	-
	66,654	-	66,654	-
	915,747	-	915,747	-
	10,216,783	-	10,216,783	-
	19,651	-	19,651	7,767
	4,394,730	(4,394,730)	-	-
	<u>71,672,661</u>	<u>(4,394,730)</u>	<u>67,277,931</u>	<u>7,767</u>
	954,623	2,355,736	3,310,359	551,707
	<u>10,003,324</u>	<u>83,008,879</u>	<u>93,012,203</u>	<u>18,794,306</u>
	<u>\$ 10,957,947</u>	<u>\$ 85,364,615</u>	<u>\$ 96,322,562</u>	<u>\$ 19,346,013</u>

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

# CITY OF ALLENTOWN, PENNSYLVANIA

## BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 1,632,609	\$ -	\$ 3,134,868	\$ 4,767,477
Investments - restricted	-	9,609,502	-	9,609,502
Receivables:				
Taxes	13,098,849	-	-	13,098,849
Loans	143,700	-	5,360,204	5,503,904
Accounts	1,526,407	85,199	-	1,611,606
Grants	433,198	1,194,167	1,089,248	2,716,613
Due from other funds	666,140	2,759,191	1,667	3,426,998
<b>Total Assets</b>	<b>\$ 17,500,903</b>	<b>\$ 13,648,059</b>	<b>\$ 9,585,987</b>	<b>\$ 40,734,949</b>
<b>Liabilities and Fund Balance</b>				
Liabilities:				
Accounts payable	\$ 1,646,371	\$ 2,264,823	\$ 208,036	\$ 4,119,230
Wages payable	890,434	-	35,486	925,920
Due to other funds	869,675	7,767,987	1,324,385	9,962,047
Due to pension trust funds	1,503,059	-	-	1,503,059
Due to other governments	3,956	-	151,574	155,530
Unearned revenue	9,737,172	173,385	303,917	10,214,474
Other liabilities	3,591,408	68,691	84,246	3,744,345
<b>Total Liabilities</b>	<b>18,242,075</b>	<b>10,274,886</b>	<b>2,107,644</b>	<b>30,624,605</b>
Fund Balance:				
Restricted for:				
Capital acquisitions	-	3,373,173	-	3,373,173
Public works	-	-	1,174,362	1,174,362
Community development	143,700	-	5,700,582	5,844,282
Public safety	-	-	632,705	632,705
Pension benefits	560,528	-	-	560,528
Unassigned	(1,445,400)	-	(29,306)	(1,474,706)
<b>Total Fund Balance</b>	<b>(741,172)</b>	<b>3,373,173</b>	<b>7,478,343</b>	<b>10,110,344</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 17,500,903</b>	<b>\$ 13,648,059</b>	<b>\$ 9,585,987</b>	<b>\$ 40,734,949</b>

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

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**RECONCILIATION OF THE BALANCE SHEET OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**  
**DECEMBER 31, 2012**

**Total Fund Balance - Governmental Funds** \$ 10,110,344

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. 100,290,092

Property held for development in governmental activities is not financial resources and, therefore, is not reported as assets in governmental funds. 689,700

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unearned in the governmental funds. 9,737,172

Net pension asset included on the statement of net position. 2,695,629

Debt issuance costs are reported as an asset and amortized on the statement of net position. 2,476,452

Long-term liabilities, including general obligation debt and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:

Accrued interest payable on general obligation debt	(858,951)	
Notes and bonds payable	(102,750,151)	
Capital leases payable	(654,732)	
Compensated absences	(3,144,101)	
Other post-employment benefits liability	(7,633,507)	
	(115,041,442)	(115,041,442)

**Total Net Position - Governmental Activities** \$ 10,957,947

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

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2012**

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 55,787,638	\$ -	\$ -	\$ 55,787,638
Licenses and permits	5,250,576	-	-	5,250,576
Charges for services	4,731,318	167,625	-	4,898,943
Fines and forfeits	634,724	-	-	634,724
Investment earnings	1,616	17,791	279	19,686
Intergovernmental revenues	14,012,812	5,654,878	7,259,757	26,927,447
Other	1,783,758	6,014	2,155,567	3,945,339
Total revenues	<u>82,202,442</u>	<u>5,846,308</u>	<u>9,415,603</u>	<u>97,464,353</u>
<b>Expenditures:</b>				
Current:				
General government	13,204,589	1,200,629	12,012	14,417,230
Public safety	50,839,370	-	2,652,375	53,491,745
Community development	4,408,873	-	3,426,260	7,835,133
Public works	7,985,705	-	1,672,511	9,658,216
Health and sanitation	2,673,529	-	-	2,673,529
Parks and recreation	1,305,181	-	1,162,549	2,467,730
Debt service:				
Principal	-	-	3,395,750	3,395,750
Interest	203,368	-	3,977,475	4,180,843
Capital outlay	1,369,571	9,098,242	142,669	10,610,482
Total expenditures	<u>81,990,186</u>	<u>10,298,871</u>	<u>16,441,601</u>	<u>108,730,658</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>212,256</u>	<u>(4,452,563)</u>	<u>(7,025,998)</u>	<u>(11,266,305)</u>
<b>Other Financing Sources (Uses):</b>				
Refunding bonds issued	5,910,000	-	-	5,910,000
Discount on refunding bonds issued	(16,111)	-	-	(16,111)
Payment to refunded bond escrow agent	(5,828,246)	-	-	(5,828,246)
Transfers in	5,229,002	99,177	8,322,889	13,651,068
Transfers out	(8,168,619)	-	(224,392)	(8,393,011)
Total other financing sources (uses)	<u>(2,873,974)</u>	<u>99,177</u>	<u>8,098,497</u>	<u>5,323,700</u>
<b>Net Change in Fund Balance</b>	<u>(2,661,718)</u>	<u>(4,353,386)</u>	<u>1,072,499</u>	<u>(5,942,605)</u>
<b>Fund Balance:</b>				
Beginning of year	1,920,546	7,726,559	6,405,844	16,052,949
End of year	<u>\$ (741,172)</u>	<u>\$ 3,373,173</u>	<u>\$ 7,478,343</u>	<u>\$ 10,110,344</u>

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

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2012

<b>Net Change in Fund Balance - Governmental Funds</b>	<b>\$ (5,942,605)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
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.	10,610,482
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources; therefore, depreciation expense is not reported as expenditures in governmental funds.	(4,925,238)
The net effect of various transactions involving capital assets (e.g., disposals and capital contributions) is to decrease net position.	(1,415,195)
Revenues related to real estate and other taxes are revenue in the statement of activities. Those that do not provide current financial resources are not reported as revenues in the funds.	1,094,013
Compensated absence expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(151,722)
Activities of the internal service fund are reported as net expense in the statement of activities.	(144,000)
Change in net pension asset not reflected in the funds.	1,485,748
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds.	(5,910,000)
Principal payments on capital leases consumes the current financial resources of governmental funds.	251,454
The repayment of principal of long-term debt consumes the current financial resources of governmental funds.	8,710,750
The accretion of capital appreciation bonds does not consume current financial resources of governmental funds.	(1,344,412)
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.	92,692
Accrued interest expense on long-term debt is reported in the statement of activities but does not require the use of current financial resources.	35,850
Other post-employment benefits are reported in the statement of activities but do not require the use of current financial resources.	(1,493,194)
<b>Change in Net Position - Governmental Activities</b>	<b>\$ 954,623</b>

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

# CITY OF ALLENTOWN, PENNSYLVANIA

## STATEMENT OF NET POSITION PROPRIETARY FUNDS

DECEMBER 31, 2012

Assets	Water Fund	Sewer Fund
Current assets:		
Cash and cash equivalents	\$ 3,961,169	\$ 3,805,656
Accounts receivable:		
Metered charges	5,091,625	2,864,039
Refuse collection	-	-
Grant	-	-
Other	31,378	748,269
Signatories	593,828	1,631,087
Total accounts receivable	5,716,831	5,243,395
Allowance for doubtful accounts	1,734,259	1,601,975
Net accounts receivable	3,982,572	3,641,420
Due from other funds	-	4,740,098
Inventories	-	-
Total current assets	7,943,741	12,187,174
Noncurrent assets:		
Capital assets, net:		
Land	2,595,840	28,450
Buildings	11,531,239	29,093,423
Land and building improvements	15,305,791	6,171,305
Machinery and equipment	23,906,771	14,941,416
Vehicles	2,926,445	2,174,594
Distribution and collection systems	43,607,841	10,813,885
Total capital assets	99,873,927	63,223,073
Accumulated depreciation	(40,740,220)	(40,961,133)
Net capital assets	59,133,707	22,261,940
Other assets	866,868	620,687
Total noncurrent assets	60,000,575	22,882,627
<b>Total Assets</b>	<b>67,944,316</b>	<b>35,069,801</b>

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

Business-type Activities - Enterprise Funds

<u>Solid Waste Fund</u>	<u>Non-Major Fund Municipal Golf Course</u>	<u>Total</u>	<u>Internal Service Fund</u>
\$ 3,819,284	\$ 101,922	\$ 11,688,031	\$ 1,284,017
-	-	7,955,664	-
1,598,215	-	1,598,215	-
164,078	-	164,078	-
-	-	779,647	167,794
-	-	2,224,915	-
<u>1,762,293</u>	-	<u>12,722,519</u>	<u>167,794</u>
934,419	-	4,270,653	-
827,874	-	8,451,866	167,794
<u>3,027,889</u>	-	<u>7,767,987</u>	<u>1,222,164</u>
-	38,402	38,402	-
<u>7,675,047</u>	<u>140,324</u>	<u>27,946,286</u>	<u>2,673,975</u>
-	1,134,759	3,759,049	-
1,017,066	227,475	41,869,203	-
1,477,128	3,227,682	26,181,906	-
2,430,659	873,125	42,151,971	-
3,462,762	245,174	8,808,975	-
-	37,465	54,459,191	-
<u>8,387,615</u>	<u>5,745,680</u>	<u>177,230,295</u>	<u>-</u>
<u>(4,942,628)</u>	<u>(2,977,083)</u>	<u>(89,621,064)</u>	<u>-</u>
3,444,987	2,768,597	87,609,231	-
-	-	1,487,555	-
<u>3,444,987</u>	<u>2,768,597</u>	<u>89,096,786</u>	<u>-</u>
<u>11,120,034</u>	<u>2,908,921</u>	<u>117,043,072</u>	<u>2,673,975</u>

(Continued)

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

# CITY OF ALLENTOWN, PENNSYLVANIA

## STATEMENT OF NET POSITION PROPRIETARY FUNDS

DECEMBER 31, 2012  
(Continued)

	Water Fund	Sewer Fund
<b>Liabilities</b>		
<hr/>		
Current liabilities:		
Accounts payable	1,559,682	460,656
Wages payable	78,499	90,369
Accrued interest payable	79,017	116,343
Claims liability	-	-
Other liabilities	136,023	-
Due to other funds	2,200,944	211,146
Compensated absences	320,527	374,017
Capital leases payable	14,639	31,882
Notes and bonds payable	2,461,600	1,280,000
Total current liabilities	6,850,931	2,564,413
Noncurrent liabilities:		
Capital leases payable	-	237,738
Compensated absences	12,315	14,370
Notes and bonds payable	9,339,723	10,035,000
Other post-employment benefit liability	308,614	352,205
Total noncurrent liabilities	9,660,652	10,639,313
<b>Total Liabilities</b>	16,511,583	13,203,726
<b>Net Position</b>		
<hr/>		
Net investment in capital assets	48,094,641	14,180,743
Unrestricted	3,338,092	7,685,332
<b>Total Net Position</b>	\$ 51,432,733	\$ 21,866,075

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

Business-type Activities - Enterprise Funds

<u>Solid Waste Fund</u>	<u>Non-Major Fund Municipal Golf Course</u>	<u>Total</u>	<u>Internal Service Fund</u>
1,120,157	13,384	3,153,879	1,844,388
31,186	6,576	206,630	5,800
-	-	195,360	-
-	-	-	812,104
94,580	775	231,378	-
36,877	6,135	2,455,102	-
140,298	22,030	856,872	9,136
86,350	-	132,871	-
-	-	3,741,600	-
<u>1,509,448</u>	<u>48,900</u>	<u>10,973,692</u>	<u>2,671,428</u>
274,208	-	511,946	-
5,390	6,542	38,617	2,547
-	-	19,374,723	-
118,660	-	779,479	-
<u>398,258</u>	<u>6,542</u>	<u>20,704,765</u>	<u>2,547</u>
<u>1,907,706</u>	<u>55,442</u>	<u>31,678,457</u>	<u>2,673,975</u>
3,084,429	2,768,597	68,128,410	-
6,127,899	84,882	17,236,205	-
<u>\$ 9,212,328</u>	<u>\$ 2,853,479</u>	<u>\$ 85,364,615</u>	<u>\$ -</u>

(Concluded)

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

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**FUND NET POSITION - PROPRIETARY FUNDS**

YEAR ENDED DECEMBER 31, 2012

	Water Fund	Sewer Fund
<b>Operating Revenues:</b>		
Charges for services:		
Metered charges	\$ 12,937,406	\$ 7,853,038
Refuse collections	-	-
Recycling	-	-
Other charges	2,311,772	6,287,719
Miscellaneous	276,612	190,883
Total operating revenues	15,525,790	14,331,640
<b>Operating Expenses:</b>		
Personnel services	6,143,348	7,471,424
Utility services	644,497	977,556
Contracted services	473,229	1,158,058
Materials and supplies	937,373	1,790,096
Claims and benefits	-	-
Depreciation and amortization	2,115,251	2,103,876
Miscellaneous	271,280	276,734
Total operating expenses	10,584,978	13,777,744
<b>Operating Income (Loss)</b>	4,940,812	553,896
<b>Non-Operating Revenues (Expenses):</b>		
Interest expense	(391,369)	(464,342)
Gain (loss) on disposal of capital assets	(23,578)	61,683
Grants	276,619	121,746
Total non-operating revenues (expenses)	(138,328)	(280,913)
Income (loss) before contributions and transfers	4,802,484	272,983
Capital contribution	649,680	-
Transfers in	-	-
Transfers out	(2,231,126)	(2,035,601)
<b>Change in Net Position</b>	3,221,038	(1,762,618)
<b>Net Position:</b>		
Beginning of year	48,211,695	23,628,693
End of year	\$ 51,432,733	\$ 21,866,075

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

Business-type Activities - Enterprise Funds

Solid Waste Fund	Non-Major Fund Municipal Golf Course	Totals	Internal Service Fund
\$ -	\$ -	\$ 20,790,444	\$ -
13,974,913	-	13,974,913	-
535,474	-	535,474	-
-	1,231,969	9,831,460	17,695,226
327,578	151,097	946,170	141,673
<u>14,837,965</u>	<u>1,383,066</u>	<u>46,078,461</u>	<u>17,836,899</u>
2,293,469	690,591	16,598,832	-
14,126	18,092	1,654,271	-
11,278,815	71,413	12,981,515	-
336,052	215,711	3,279,232	-
-	-	-	17,926,338
536,625	166,413	4,922,165	-
89,917	4,887	642,818	-
<u>14,549,004</u>	<u>1,167,107</u>	<u>40,078,833</u>	<u>17,926,338</u>
<u>288,961</u>	<u>215,959</u>	<u>5,999,628</u>	<u>(89,439)</u>
-	-	(855,711)	-
12,228	16,740	67,073	-
1,137,052	4,059	1,539,476	1,353
<u>1,149,280</u>	<u>20,799</u>	<u>750,838</u>	<u>1,353</u>
1,438,241	236,758	6,750,466	(88,086)
-	157,733	807,413	-
-	8,000	8,000	-
(629,955)	(313,461)	(5,210,143)	(55,914)
808,286	89,030	2,355,736	(144,000)
<u>8,404,042</u>	<u>2,764,449</u>	<u>83,008,879</u>	<u>144,000</u>
<u>\$ 9,212,328</u>	<u>\$ 2,853,479</u>	<u>\$ 85,364,615</u>	<u>\$ -</u>

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

# CITY OF ALLENTOWN, PENNSYLVANIA

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2012

	Water Fund	Sewer Fund
<b>Cash Flows From Operating Activities:</b>		
Receipts from customers and users	\$ 15,384,578	\$ 19,110,729
Payments to suppliers for services	(2,284,427)	(4,202,971)
Payments to employees	(6,058,230)	(7,374,776)
Net cash provided by operating activities	7,041,921	7,532,982
<b>Cash Flows From Non-Capital Financing Activities:</b>		
Operating grants received	276,619	121,746
Transfers out	(2,157,507)	(1,997,635)
Net cash provided by (used in) non-capital financing activities	(1,880,888)	(1,875,889)
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Acquisition and construction of capital assets	(4,232,036)	(546,910)
Advance from/to other fund	761,271	441,162
Proceeds from issuance of capital debt	2,140,123	-
Principal paid on capital debt	(2,599,000)	(1,325,000)
Payments of obligations under capital leases	(22,001)	-
Proceeds from disposal of capital assets	10,465	61,683
Interest paid on long-term obligations	(388,521)	(482,672)
Net cash used in capital and related financing activities	(4,329,699)	(1,851,737)
<b>Net Increase in Cash and Cash Equivalents</b>	831,334	3,805,356
<b>Cash and Cash Equivalents:</b>		
Beginning of year	3,129,835	300
End of year	\$ 3,961,169	\$ 3,805,656
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating income (loss)	\$ 4,940,812	\$ 553,896
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,115,251	2,103,876
Changes in:		
Accounts receivable	(141,212)	4,779,089
Inventories	-	-
Accounts payable	25,706	(527)
Accrued payroll	23,747	19,224
Claims liability	-	-
Other liabilities	16,246	-
Compensated absences	2,287	12,010
Other post-employment benefit liability	59,084	65,414
Total adjustments	2,101,109	6,979,086
Net cash provided by operating activities	\$ 7,041,921	\$ 7,532,982
<b>Non-cash capital and related financing activities:</b>		
Capital contribution	\$ 649,680	\$ -
Transfer of capital assets	\$ -	\$ (8,000)
Issuance of capital lease	\$ 36,640	\$ 269,620

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

Business-type Activities - Enterprise Funds

Solid Waste Fund	Non-Major Fund Municipal Golf Course	Totals	Internal Service Fund
\$ 14,622,496	\$ 1,383,066	\$ 50,500,869	\$ 17,813,105
(11,533,974)	(305,002)	(18,326,374)	(17,519,840)
(2,240,971)	(689,811)	(16,363,788)	(672)
<u>847,551</u>	<u>388,253</u>	<u>15,810,707</u>	<u>292,593</u>
1,137,052	4,059	1,539,476	1,353
(630,973)	(313,608)	(5,099,723)	(55,914)
<u>506,079</u>	<u>(309,549)</u>	<u>(3,560,247)</u>	<u>(54,561)</u>
(496,783)	(49,792)	(5,325,521)	-
240,408	-	1,442,841	(164,458)
-	-	2,140,123	-
-	-	(3,924,000)	-
(104,540)	-	(126,541)	-
12,228	16,740	101,116	-
-	-	(871,193)	-
<u>(348,687)</u>	<u>(33,052)</u>	<u>(6,563,175)</u>	<u>(164,458)</u>
<u>1,004,943</u>	<u>45,652</u>	<u>5,687,285</u>	<u>73,574</u>
2,814,341	56,270	6,000,746	1,210,443
<u>\$ 3,819,284</u>	<u>\$ 101,922</u>	<u>\$ 11,688,031</u>	<u>\$ 1,284,017</u>
<u>\$ 288,961</u>	<u>\$ 215,959</u>	<u>\$ 5,999,628</u>	<u>\$ (89,439)</u>
536,625	166,413	4,922,165	-
(215,469)	-	4,422,408	(23,794)
-	8,584	8,584	-
174,309	(3,086)	196,402	465,134
11,806	1,258	56,035	3,725
-	-	-	(58,636)
10,627	(397)	26,476	-
17,481	(478)	31,300	(4,397)
23,211	-	147,709	-
<u>558,590</u>	<u>172,294</u>	<u>9,811,079</u>	<u>382,032</u>
<u>\$ 847,551</u>	<u>\$ 388,253</u>	<u>\$ 15,810,707</u>	<u>\$ 292,593</u>
<u>\$ -</u>	<u>\$ 157,733</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 8,000</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 306,260</u>	<u>\$ -</u>

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

# CITY OF ALLENTOWN, PENNSYLVANIA

## STATEMENT OF FIDUCIARY NET POSITION FIDUCIARY FUNDS

DECEMBER 31, 2012

<b>Assets</b>	Pension Trust Fund	Agency Funds
Cash and cash equivalents	\$ -	\$ 1,514,035
Interest receivable	19	-
Due from City's General Fund	1,503,059	-
Due from other funds	695	-
Other receivables	44,583	-
Investments, at fair value:		
Common stock	23,466	-
Money market funds	9,250,528	-
Negotiable certificates of deposit	534,852	-
Equity mutual funds	77,703,427	-
Bond mutual funds	30,791,257	-
<b>Total Assets</b>	<b>119,851,886</b>	<b>1,514,035</b>
<b>Liabilities</b>		
Accounts payable	25,789	-
Due to other funds	695	-
Payroll tax liability	-	1,314,577
Due to other governments	-	199,458
<b>Total Liabilities</b>	<b>26,484</b>	<b>\$ 1,514,035</b>
<b>Net Position</b>		
Restricted for pension benefits	<b>\$ 119,825,402</b>	

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

**CITY OF ALLENTOWN, PENNSYLVANIA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2012**

	<u>Pension Trust Fund</u>
<b>Additions:</b>	
<hr/>	
Contributions:	
Employer	\$ 13,409,632
Plan members	1,508,711
Total contributions	<u>14,918,343</u>
Investment income:	
Net appreciation in fair value of investments	10,691,041
Interest and dividends	2,638,814
Less investment expenses	<u>(115,771)</u>
Net investment income	<u>13,214,084</u>
Other income:	
Miscellaneous	<u>35,267</u>
Total additions	<u>28,167,694</u>
<b>Deductions:</b>	
<hr/>	
Benefits paid to recipients	20,228,531
Administrative and other fees	<u>29,290</u>
Total deductions	<u>20,257,821</u>
<b>Increase in Net Position</b>	7,909,873
<b>Net Position:</b>	
<hr/>	
Beginning of year	<u>111,915,529</u>
End of year	<u><u>\$119,825,402</u></u>

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

# CITY OF ALLENTOWN, PENNSYLVANIA

## STATEMENT OF NET POSITION COMPONENT UNITS

DECEMBER 31, 2012

<b>Assets</b>	Redevelopment Authority of the City of Allentown	Allentown Parking Authority	Total
Current assets:			
Cash and cash equivalents	\$ 199,412	\$ 763,711	\$ 963,123
Cash and cash equivalents - restricted	92,040	-	92,040
Certificates of deposit	-	1,336,944	1,336,944
Accounts receivable	1,667	159,135	160,802
Other current assets	-	2,119	2,119
Inventory	-	29,841	29,841
Prepaid expenses	4,391	258,246	262,637
Due from other governments	162,406	-	162,406
Total current assets	459,916	2,549,996	3,009,912
Noncurrent assets:			
Land	-	8,495,248	8,495,248
Land and building improvements	-	32,185,568	32,185,568
Machinery and equipment	-	347,895	347,895
Vehicles	-	101,912	101,912
Construction in progress	-	11,354	11,354
Total capital assets, net	-	41,141,977	41,141,977
Loans receivable	1,041,523	-	1,041,523
Property held for development	1,603,153	-	1,603,153
Other assets	-	239,765	239,765
Total noncurrent assets	2,644,676	41,381,742	44,026,418
<b>Total Assets</b>	<b>3,104,592</b>	<b>43,931,738</b>	<b>47,036,330</b>

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

# CITY OF ALLENTOWN, PENNSYLVANIA

## STATEMENT OF NET POSITION COMPONENT UNITS

DECEMBER 31, 2012

	Redevelopment Authority of the City of Allentown	Allentown Parking Authority	Total
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and other current liabilities	37,054	417,192	454,246
Other liabilities	-	90,030	90,030
Unearned revenue	-	366,081	366,081
Line of credit	-	340,853	340,853
Notes and bonds payable, current maturities	75,000	1,464,155	1,539,155
Capital lease payable	-	68,103	68,103
Total current liabilities	112,054	2,746,414	2,858,468
Noncurrent liabilities:			
Unearned revenue	-	9,370,850	9,370,850
Other post-employment benefit liability	-	50,495	50,495
Capital lease payable	-	268,892	268,892
Bonds payable	-	15,141,612	15,141,612
Total noncurrent liabilities	-	24,831,849	24,831,849
<b>Total Liabilities</b>	112,054	27,578,263	27,690,317
<b>Net Position</b>			
Net investment in capital assets	-	23,858,362	23,858,362
Restricted	980,040	-	980,040
Unrestricted	2,012,498	(7,504,887)	(5,492,389)
<b>Total Net Position</b>	\$ 2,992,538	\$ 16,353,475	\$ 19,346,013

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

# CITY OF ALLENTOWN, PENNSYLVANIA

## STATEMENT OF ACTIVITIES COMPONENT UNITS

YEAR ENDED DECEMBER 31, 2012

<u>Component Units:</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Redevelopment Authority of the City of Allentown	Allentown Parking Authority	Total Component Units
Redevelopment Authority of the City of Allentown	\$ 1,670,368	\$ 1,625,715	\$ 163,087	\$ 118,434	\$ -	\$ 118,434
Allentown Parking Authority	5,084,515	5,510,021	-	-	425,506	425,506
<b>Total component units</b>	<b>\$ 6,754,883</b>	<b>\$ 7,135,736</b>	<b>\$ 163,087</b>	<b>118,434</b>	<b>425,506</b>	<b>543,940</b>
General revenues:						
Investment earnings				-	7,767	7,767
Total general revenues				-	7,767	7,767
<b>Change in Net Position</b>				118,434	433,273	551,707
<b>Net Position:</b>						
Beginning of year				2,874,104	15,920,202	18,794,306
End of year				\$ 2,992,538	\$ 16,353,475	\$ 19,346,013

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

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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

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

#### 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 118,000 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 City has evaluated all related entities (authorities, commissions, and affiliates) for 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.

#### Redevelopment Authority of the City of Allentown

The Redevelopment Authority of the City of Allentown (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 Parking Authority

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

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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appointed by the Mayor. The City has guaranteed a portion of the debt issuance of the Parking Authority.

Separately published financial statements of the above component units are available for public inspection at the City.

### Basis of Presentation

The government-wide financial statements (i.e., the statement of net position 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 and other taxes are recognized as revenues in the year for which they are levied or the underlying transaction has taken place. 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

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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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, pension, other post-employment benefits, and compensated absences expenditures are recorded only when payment is due.

Property and other 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 to the extent that they meet the available criteria. 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 accounted for in another fund.

Capital Projects Fund - is used to account for financial resources that are restricted, committed, or assigned to expenditures for capital outlay including the acquisition or construction of capital facilities and other capital assets.

The City reports the following nonmajor governmental funds: Liquid Fuels Fund, Community Development Block Grant Fund, Revolving Loan Fund, Debt Service Fund, Trexler Fund, and E-911 Fund.

The City reports the following major proprietary funds:

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

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

Solid Waste Fund - is used to account for the administration of the collection and disposal of municipal waste and recyclables in the City, and is operated in a manner similar to a private business enterprise and is intended to be self-supporting.

The Municipal Golf Course Fund is the City's nonmajor proprietary fund.

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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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 funds consist of 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.

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 and capital 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 funds are charges to customers for services. Operating expenses for the enterprise funds 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 and the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 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 funds and certain 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. All investments are held in the capital projects fund and the pension trust fund. 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.

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.
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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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

The deposit and investment activity of the Parking Authority adheres to state statutes, prudent business practices, and applicable trust indentures, which are more restrictive than existing state statutes. Pennsylvania law stipulates the investment and deposit types the Parking Authority may purchase as follows:

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

The Parking Authority had no deposit or investment transactions during the year ended December 31, 2012 which were in violation of state statutes or applicable trust indentures.

### Restricted Assets

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

The Authority's restricted cash accounts are those accounts with externally imposed withdrawal restrictions.

### Internal Balances

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

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."

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### Allowance for Uncollectible Receivables

All property tax, per capita tax, curb and sidewalk, water, sewer, and solid waste charges for service receivables are shown net of an allowance for uncollectibles. All allowances have been calculated based on historical collections. The allowance for property tax and per capita tax, presented in the General Fund, was approximately \$2.2 million at December 31, 2012. The allowance for curb and sidewalk charges for services, presented in the Capital Projects Fund, was approximately \$199,000 at December 31, 2012. The allowance for water, sewer, and solid waste, presented in their respective funds, was approximately \$1.7 million, \$1.6 million, and \$934,000, respectively, at December 31, 2012.

The Authority loans funds to private developers in connection with redevelopment projects in the City. The collectability of the loans is evaluated and an allowance is recorded for amounts which may not be collected by the Authority. The loans are under a revolving loan fund program financed by the Commonwealth of Pennsylvania, Department of Community and Economic Development.

### 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, 2012 are immaterial.

Inventories at the Allentown Municipal Golf Course are valued at average cost.

For the Parking Authority, inventory consists of parking meters, their related components, salt, and chemicals and is stated at cost (FIFO).

### Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. The City and the Parking Authority value donated capital assets at their estimated fair value on the date of donation. The City and the Parking Authority maintain 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.

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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The City's 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

The Parking Authority's capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-44
Parking garages and components	5-50
Equipment and vehicles	3-20

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

### Property Held for Development

The Authority acquires properties in the City for future development which are recorded at cost. When the Authority enters into agreements with private developers for sale of the properties, the carrying amount of the properties are reduced to the future net realizable amounts in the agreements with the private developers through an allowance for losses.

### Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental and proprietary fund types. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payment are incurred. Encumbrances outstanding at year-end for unfilled obligations of the current year budget are reappropriated in the succeeding year. The City reports encumbrances in its governmental funds as assigned fund balance, if the individual fund's fund balance is not presented as

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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restricted. Encumbrance accounting is used in proprietary fund types as a tool for budgetary control, but is not reported on the statement of net position. At December 31, 2012, the City had encumbrances of \$302,480 in the Sewer Fund related to wastewater treatment facility administration and operations as well as sewer line maintenance. The Solid Waste Fund had encumbrances of \$207,784 related to operating supplies and equipment.

### Fund Balance

In the fund financial statements, fund balance of governmental funds is classified in five separate categories. The five categories, and their general meaning are as follows:

- Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid expenditures and inventory.
- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by City Council. Such commitment is made via a resolution by City Council and must be made prior to the end of the year. Removal of this commitment requires a resolution by City Council.
- Assigned – This category represents intentions of an individual or group designated by City Council to use the funds for specific purposes. Through a resolution of City Council, the designee would have to be delegated the responsibility to assign funds.
- Unassigned – This category represents all other funds not otherwise defined.

The City's policy is to use funds in the order of the most restrictive to the least restrictive.

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.

### Net Position

Net position is classified into three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt, net of unspent bond proceeds,

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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that are attributable to the acquisition, construction and improvement of those assets. Restricted net position is restricted by laws or regulations of outside parties. Unrestricted consists of all other net position not included in the above categories.

### 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.

For the Parking Authority, vacation pay for both salaried and union employees is based on length of service and accrues as of each employee's anniversary date. Sick pay for both salaried and union employees is based on eight days per calendar year for the year ended December 31, 2012. Employees may carry over a maximum of four sick days per calendar year. Compensated absences are included as a part of accounts payable and other current liabilities in the statement of net position.

### Unearned Revenues

Unearned revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. In governmental funds, such amounts are measurable but are not available. Unearned revenues 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 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.

Bond issuance costs of the Parking Authority have been amortized using the straight-line method over the term of the related debt.

### Deferred Refunding Losses

Deferred refunding losses are deferred and amortized over the term of the new or refunded bonds, whichever is shorter, using the bond outstanding method, which approximates the interest method. Deferred refunding losses are deducted from the bonds outstanding.

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### Conduit Debt and Related Receivable

In July 2006, the Authority and a developer entered into a financing agreement for the Authority to provide a \$3.4 million Section 108 Loan through the Federal Department of Housing and Urban Development (HUD) for a project (Allentown Brew Works).

The loan is secured by a second lien mortgage on the property and the corporate and personal guarantees of the developer and the assignment of leases and rents. In November 2011, the note was converted from a variable interest rate to a fixed interest rate as a result of a public offering of the note by HUD.

The Authority has an indemnity agreement from the developer, which limits the Authority's obligation to repay the loan to amounts it receives from the developer.

The Authority treats this loan as conduit debt and, therefore, does not recognize either the loan receivable or long-term debt on its statement of net position.

The balance on this loan at December 31, 2012 is \$3.076 million.

### 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 City real estate taxes are certified to Portnoff Law Associates for further collection and possible tax sales over an additional 30-month period.

The 2012 tax levy was 17.53 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, 2012, appropriate interfund receivables or payables have been established.

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 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, 2012, the City carried excess loss insurance policies, which limited its liability to \$500,000 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 \$812,104 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.

### Budgets

Annual budgets as required by the City Charter are adopted by City Council on a cash basis for revenues and modified accrual basis for expenditures, including appropriations to cover prior and anticipated current encumbrances. Appropriations not reserved for encumbrances lapse at year-end. Budgets are legally adopted for the General Fund, Liquid Fuels Fund, Capital Projects Fund, and Debt Service Fund.

The City Administration, 60 days prior to the beginning of the new fiscal year, presents the proposed budgets to City Council. A series of public hearings and discussions occur related to the budgets and on or before December 15, City Council approves the budgets. At the time of the budget adoptions, City Council adopts various ordinance related to tax rates and other rates and fees.

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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The City Charter requires the City's legal level of budgetary control to be at the fund level. As a management control, the Finance Director has the power to authorize the transfer of any unexpended balance up to \$5,000 between accounts within a fund. Transfers exceeding \$5,000 must be approved by City Council.

### 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.

### Adoption of Governmental Accounting Standards Board (GASB) Statement

The City has adopted GASB issued Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" Statement No. 63 provides guidance on reporting deferred inflows and outflows of resources, which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets.

### Pending Changes in Accounting Principles

GASB has issued the following Statements, which will become effective in future years as shown below. Management has not yet determined the impact of these Statements on the City's financial statements.

GASB Statement No. 61, "*The Financial Reporting Entity.*" The objective of this Statement is to have financial reporting entity financial statements be more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The provisions of this Statement are effective for the City's December 31, 2013 financial statements.

GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities.*" Statement No. 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for the City's December 31, 2013 financial statements.

GASB has issued Statements No. 67 and 68, "*Financial Reporting for Pension Plans,*" and "*Accounting and Financial Reporting for Pensions.*" These Statements revise and establish reporting requirements for most governments that provide their employees with pension

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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benefits. The provisions of these Statements are effective for the City's December 31, 2014 and 2015 financial statements.

In April 2013, GASB issued Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees.*" Statement No. 70 improves accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for the City's December 31, 2014 financial statements.

### 2. DEPOSITS AND INVESTMENTS

The carrying amounts of cash and investments at December 31, 2012 consist of the following:

Petty cash	\$ 8,100
Deposits	19,245,460
Investments	<u>127,913,032</u>
	<u>\$ 147,166,592</u>

#### Reconciliation to Statements of Net Position

Cash and cash equivalents:	
Governmental activities	\$ 6,051,494
Business-type activities	11,688,031
Fiduciary funds	<u>1,514,035</u>
	<u>19,253,560</u>
Investments:	
Governmental activities	9,609,502
Fiduciary funds	<u>118,303,530</u>
	<u>127,913,032</u>
	<u>\$ 147,166,592</u>

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### Cash and Cash Equivalents

The City's available cash is invested in demand deposit 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, 2012, the City's book balance was \$19,253,560 and the bank balance was \$19,145,634. Of the bank balance, \$269,044 was covered by federal depository insurance, \$170,415 was covered by National Credit Union Administration deposit insurance, and \$18,706,175 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

### Investments

As of December 31, 2012, the City's investments were comprised of the following:

Money market fund	\$ 18,860,030
Negotiable certificates of deposit	534,852
Equity mutual fund	77,703,427
Bond mutual fund	30,451,274
U.S. Treasury bond/note	339,983
Common stock	23,466
Total	<u><u>\$ 127,913,032</u></u>

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

As of December 31, 2012, the City had the following investments in fixed income securities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				<u>Rating</u>
		<u>2013</u>	<u>2014 - 2018</u>	<u>2019 - 2023</u>	<u>2024+</u>	
Negotiable certificates of deposit	\$ 534,852	\$ 534,852	\$ -	\$ -	\$ -	Unrated
Bond mutual fund	223,171	-	-	-	223,171	A
Bond mutual fund	29,252,329	-	-	29,252,329	-	Aaa
Bond mutual fund	71,809	-	-	71,809	-	BBB
Bond mutual fund	227,643	-	76,283	151,360	-	B
Bond mutual fund	121,790	-	-	-	121,790	Baa
Bond mutual fund	93,260	-	93,260	-	-	A1
Bond mutual fund	318,347	-	130,733	187,614	-	Aa2
Bond mutual fund	142,925	-	142,925	-	-	A2
U.S. Treasury bond/note	339,983	-	143,129	151,034	45,820	Aaa
<b>Total fixed income securities</b>	<b>\$ 31,326,109</b>	<b>\$ 534,852</b>	<b>\$ 586,330</b>	<b>\$ 29,814,146</b>	<b>\$ 390,781</b>	

### 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.

### 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 52% domestic equities, 18% international equities, and 30% fixed income for the Police and Firemens pension plans and 51% domestic equities, 17% international equities, and 32% fixed income for the Officers and Employees pension plan.

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 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, 2012, all 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

#### *Authority*

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

The Authority's available cash is invested in demand deposit accounts. At December 31, 2012, the carrying amount of the Authority's bank deposits was \$291,452. The corresponding bank balance at December 31, 2012 was \$341,537, of which \$252,294 was directly covered by depository insurance of a federal agency. The remaining \$89,243 was exposed to custodial risk because it is uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name. The Authority is covered by a collateral pool consisting of acceptable securities as outlined under Act No. 72, 1971 Session of Pennsylvania Legislature.

#### *Parking Authority*

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

Custodial credit risk is the risk that in the event of a bank failure, the Parking Authority's deposits may not be returned to it. The Parking Authority does not have a deposit policy for

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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custodial credit risk. As of December 31, 2012, \$85,571 of the Parking Authority's bank balance of \$2,059,398 was exposed to custodial credit risk.

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

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

External investment pools:

### Pennsylvania Treasury Department INVEST Program (INVEST)

The Parking Authority has an agreement with Pennsylvania Treasury Department to pool funds to enhance interest earnings. The INVEST program allows Pennsylvania municipalities to utilize the investment expertise of Treasury personnel to purchase investments with other local governmental units. Because of the large volume of money invested, the longer average investment maturity and low administrative charges; the State is able to provide a high rate of return. Funds deposited in the INVEST program require either one or ten day's notice for withdrawal. The INVEST pool is not SEC regulated. The investment policy of INVEST is guided by Pennsylvania statute for respective shareholder participants. The policy is consistent with investment criteria for a "AAA" rating from the Standard & Poor's and Fitch rating agencies. An oversight committee comprised of the State Treasurer, the State Secretary of the Budget, and the State House of Representatives Majority and Minority Chairmen, together with three independent third party investment experts, provide investment advice and strategies to be utilized by the INVEST program. The fair value of the Authority's position in the INVEST pool is the same as the value of the pool shares and matures in less than one year. The Authority's investment in INVEST has been rated AAAM, the highest rating available, by Standard & Poor's, an independent investment rating company. The average maturity of INVEST Daily Pool is 52 days.

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

The Parking Authority invests in the PSDLAF, a customized cash management program created in 1982 by the Pennsylvania School Boards Association and the Pennsylvania Association of School Business Officials to provide a unique set of benefits and enhancements for investing public funds. The general objective of the PSDLAF is to provide its investors current income while preserving capital in a manner compatible with the needs and requirements of public school and local government entities in Pennsylvania. The pool is not SEC regulated. The investment policy of PSDLAF is guided by Section 440.1 of the

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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Pennsylvania School Code, which governs the temporary investment of funds by school entities.

The fund is managed by a Board of Trustees, which oversees, reviews, and supervises the activities of all consultants and professional advisers to PSDLAF. The Trustees also retain an Executive Director of the Fund who acts as a consultant to PSDLAF and performs such consulting and advisory services with respect to matters concerning the operations and activities of PSDLAF as may from time to time be reasonably requested by the Trustees. An independent investment company has been appointed by the Trustees to act as PSDLAF's investment adviser. The fair value of the Parking Authority's position in PSDLAF is the same as the value of the pool shares and matures in less than one year. The Parking Authority's investment in PSDLAF has been rated AAAM, the highest rating available, by Standard & Poor's, an independent investment rating company. The average maturity of PSDLAF is 37 days.

As of December 31, 2012, the carrying amounts of external investment pool assets were \$84,566. The fair value of external investment pool assets approximate their carrying values as of December 31, 2012. As required by GASB, investments in external investment pools are uncategorized with regard to risk and are not included in the custodial credit risk presented above.

### 3. LOANS RECEIVABLE

#### *Authority*

Loans receivable as of December 31, 2012 consist of the following:

The Authority has a loan receivable of \$500,000 at 2% with a private developer for the Farr Loft Project. Repayment of the loan was to commence in May 2009 with monthly principal and interest payments through April 2022. In July 2009, the loan agreement was amended, whereby payments of interest only at a rate of 2% would be made for a period of two years. No modifications to the loan agreement and payment schedule were made after the amendment expired in August 2011. Payments of interest only under the terms of the July 2009 agreement have continued. The Authority holds a third lien mortgage position on the property, furnishings, fixtures, and equipment related to the property and has established an allowance for 100% of the loan. An allowance for losses of \$500,000 was recorded against the loan at December 31, 2012.

The Authority has an interest-free loan receivable of \$888,000 with a private developer for the Cosmopolitan Project. The Authority will receive varying principal payments as set forth in the agreement starting in 2018 and continuing through 2050. A "voluntary sale" notice

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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must be provided to the Authority for any sale or transfer of the Project prior to the maturity date of the note.

In March 2012, the Authority conveyed three properties to the Allentown Commercial and Industrial Development Authority (ACIDA). In consideration of the transfer, the ACIDA entered into noninterest-bearing promissory notes totaling \$153,523. Principal payments are due when the properties are sold to a third party. If the properties are not sold within a 24-month period, the ACIDA shall commence monthly principal payments of \$750 for each property until sold.

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

### 4. CAPITAL ASSETS

Activity in the City's capital assets for the year ended December 31, 2012 is as follows:

	<u>January 1, 2012</u>	<u>Additions/ Transfers In</u>	<u>Disposals/ Transfers Out</u>	<u>December 31, 2012</u>
Government activities:				
Capital assets not being depreciated:				
Land	\$ 8,409,945	\$ -	\$ -	\$ 8,409,945
Art	95,166	-	-	95,166
Construction in progress	<u>18,674,229</u>	<u>9,098,242</u>	<u>(7,694,886)</u>	<u>20,077,585</u>
Total capital assets not being depreciated	<u>27,179,340</u>	<u>9,098,242</u>	<u>(7,694,886)</u>	<u>28,582,696</u>
Capital assets being depreciated:				
Buildings	23,956,504	106,723	-	24,063,227
Land and building improvements	25,222,003	2,062,925	(157,733)	27,127,195
Machinery and equipment	27,545,390	1,743,937	(18,978)	29,270,349
Vehicles	15,998,028	975,804	(735,228)	16,238,604
Infrastructure	<u>63,870,698</u>	<u>4,317,737</u>	<u>(1,992,881)</u>	<u>66,195,554</u>
Total capital assets being depreciated	<u>156,592,623</u>	<u>9,207,126</u>	<u>(2,904,820)</u>	<u>162,894,929</u>
Less accumulated depreciation for:				
Buildings	17,387,544	535,545	-	17,923,089
Land and building improvements	12,701,701	1,185,555	-	13,887,256
Machinery and equipment	14,804,966	1,391,902	(2,846)	16,194,022
Vehicles	12,659,983	779,994	(723,624)	12,716,353
Infrastructure	<u>30,197,726</u>	<u>1,032,242</u>	<u>(763,155)</u>	<u>30,466,813</u>
Total accumulated depreciation	<u>87,751,920</u>	<u>4,925,238</u>	<u>(1,489,625)</u>	<u>91,187,533</u>
Total capital assets being depreciated, net	<u>68,840,703</u>	<u>4,281,888</u>	<u>(1,415,195)</u>	<u>71,707,396</u>
Governmental activities capital assets, net	<u>\$ 96,020,043</u>	<u>\$ 13,380,130</u>	<u>\$ (9,110,081)</u>	<u>\$ 100,290,092</u>

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

	<u>January 1, 2012</u>	<u>Additions/ Transfers In</u>	<u>Disposals/ Transfers Out</u>	<u>December 31, 2012</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,759,049	\$ -	\$ -	\$ 3,759,049
Construction in progress	<u>1,066,789</u>	<u>4,957,587</u>	<u>(6,024,376)</u>	<u>-</u>
Total capital assets not being depreciated	<u>4,825,838</u>	<u>4,957,587</u>	<u>(6,024,376)</u>	<u>3,759,049</u>
Capital assets being depreciated:				
Buildings	41,869,203	-	-	41,869,203
Land and building improvements	25,337,449	852,457	(8,000)	26,181,906
Machinery and equipment	37,829,347	4,425,315	(102,691)	42,151,971
Vehicles	8,334,032	1,053,165	(578,222)	8,808,975
Distribution and collection systems	<u>52,431,011</u>	<u>2,035,215</u>	<u>(7,035)</u>	<u>54,459,191</u>
Total capital assets being depreciated	<u>165,801,042</u>	<u>8,366,152</u>	<u>(695,948)</u>	<u>173,471,246</u>
Less accumulated depreciation for:				
Buildings	25,657,349	1,023,392	-	26,680,741
Land and building improvements	10,205,678	734,002	-	10,939,680
Machinery and equipment	27,935,780	1,954,194	(68,648)	29,821,326
Vehicles	6,612,256	422,587	(578,222)	6,456,621
Distribution and collection systems	<u>15,154,590</u>	<u>575,141</u>	<u>(7,035)</u>	<u>15,722,696</u>
Total accumulated depreciation	<u>85,565,653</u>	<u>4,709,316</u>	<u>(653,905)</u>	<u>89,621,064</u>
Total capital assets being depreciated, net	<u>80,235,389</u>	<u>3,656,836</u>	<u>(42,043)</u>	<u>83,850,182</u>
Business-type activities capital assets, net	<u>\$ 85,061,227</u>	<u>\$ 8,614,423</u>	<u>\$ (6,066,419)</u>	<u>\$ 87,609,231</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 284,863
Public safety	1,315,159
Community development	111,241
Public works	2,466,253
Health and sanitation	96,427
Parks and recreation	<u>651,295</u>
Total	<u>\$ 4,925,238</u>

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Depreciation expense was charged to business-type activities as follows:

Water Fund	\$ 1,970,458
Sewer Fund	2,028,073
Municipal Golf Course	166,413
Solid Waste Fund	536,625
Accumulated depreciation on assets transferred from governmental activities	7,747
Total	\$ 4,709,316

### Component Units' Capital Assets

#### Parking Authority

Activity in the Parking Authority's capital assets for the year ended December 31, 2012 is as follows:

	January 1, 2012	Additions	Disposals	December 31, 2012
Parking Authority:				
Capital assets not being depreciated:				
Land	\$ 8,495,248	\$ -	\$ -	\$ 8,495,248
Construction in progress	-	11,354	-	11,354
Total capital assets not being depreciated	8,495,248	11,354	-	8,506,602
Capital assets being depreciated:				
Land and building improvements	44,351,201	72,330	-	44,423,531
Vehicles	1,503,755	50,131	-	1,553,886
Equipment under capital lease	-	353,792	-	353,792
Total capital assets being depreciated	45,854,956	476,253	-	46,331,209
Less accumulated depreciation for:				
Land and building improvements	10,885,974	1,351,989	-	12,237,963
Vehicles	1,403,351	48,623	-	1,451,974
Equipment under capital lease	-	5,897	-	5,897
Total accumulated depreciation	12,289,325	1,406,509	-	13,695,834
Total capital assets being depreciated, net	33,565,631	(930,256)	-	32,635,375
Parking Authority capital assets, net	\$ 42,060,879	\$ (918,902)	\$ -	\$ 41,141,977

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

### 5. INTERFUND RECEIVABLE AND PAYABLE BALANCES

The composition of interfund balances as of December 31, 2012 is as follows:

Receivable Fund	Payable Fund	Purpose for Balance	Amount
General	Trexler	Short-term loan/negative cash	\$ 308,913
	E-911	Short-term loan/negative cash	68,531
	Revolving	Payback funds to Commonwealth	1,320
	Sewer	Signatory escrow	74,722
	CDBG	Cash advance for A/P	212,654
			<u>666,140</u>
Capital Projects	Water	Bond proceeds	2,075,589
	Water	H <sub>2</sub> O grant	5,028
	E-911	Capital project expenditures	678,574
			<u>2,759,191</u>
Revolving Loan	CDBG	Deposit error	<u>1,667</u>
Sewer	Capital Projects	Bond proceeds	<u>4,740,098</u>
Solid Waste	Capital Projects	Short-term loan/negative cash	<u>3,027,889</u>
Risk	General	Insurance reimbursement	869,675
	Water	Insurance reimbursement	120,327
	Sewer	Insurance reimbursement	136,424
	Liquid Fuels	Insurance reimbursement	22,066
	Trexler	Insurance reimbursement	15,037
	CDBG	Insurance reimbursement	15,623
	Golf	Insurance reimbursement	6,135
	Solid Waste	Insurance reimbursement	36,877
			<u>1,222,164</u>
Police Pension	Officer's and Employee's Pension	Reimbursement - police auction	<u>695</u>
Pensions	General	Interest and unfunded liability	<u>1,503,059</u>
			<u>\$ 13,920,903</u>

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

### 6. INDIVIDUAL FUND INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2012 consisted of the following:

	Transfers in:					Total
	General Fund	Capital Projects	E-911 Fund	Debt Service Fund	Golf Fund	
Transfers out:						
General	\$ -	\$ -	\$ 937,652	\$ 7,230,967	\$ -	\$ 8,168,619
CDBG	81,518	-	-	15,930	-	97,448
Trexler	20,837	99,177	-	-	-	120,014
E-911	6,930	-	-	-	-	6,930
Water	2,231,126	-	-	-	-	2,231,126
Sewer	1,995,741	-	-	31,860	8,000	2,035,601
Solid Waste	629,955	-	-	-	-	629,955
Golf	206,981	-	-	106,480	-	313,461
Risk	55,914	-	-	-	-	55,914
	<u>\$ 5,229,002</u>	<u>\$ 99,177</u>	<u>\$ 937,652</u>	<u>\$ 7,385,237</u>	<u>\$ 8,000</u>	<u>\$ 13,659,068</u>

The majority of interfund transfers were for recurring annual transfers. Transfers totaling \$5,229,002 were made to the General Fund for reimbursement of services rendered by the General Fund for other operating funds. A transfer totaling \$99,177 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. A transfer was made from the Sewer Fund to the Golf Fund for a transfer of capital assets.

### 7. PENSION PLANS

#### Plan Descriptions

The City has three single-employer defined benefit pension plans covering Police, Firemen, and certain non-uniformed employees (Officers and Employees Plan). The Plans provide for retirement, disability, vested and death benefits to plan members and their beneficiaries. Cost of living adjustments are provided at the discretion of the Police, Firemen, and Officers and Employees Retirement Boards. All full-time City employees hired prior to June 9, 1976 are

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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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 position and a statement of changes in fiduciary net position for the City's three single-employer defined benefit plans:

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

	Officers and Employees Pension Fund	Police Pension Fund	Firemen Pension Fund	Total Pension Trust Fund
<b>Statement of Plan Net Position</b>				
Assets:				
Interest receivable	\$ 3	\$ 8	\$ 8	\$ 19
Due from City's General Fund	64,762	924,592	513,705	1,503,059
Due from other funds	-	695	-	695
Other receivables	-	-	44,583	44,583
Investments, at fair value	13,745,238	63,123,269	41,435,023	118,303,530
Total assets	13,810,003	64,048,564	41,993,319	119,851,886
Liabilities:				
Accounts payable	6,497	9,646	9,646	25,789
Due to other funds	695	-	-	695
Total liabilities	7,192	9,646	9,646	26,484
Net Position:				
Restricted for pension benefits	\$ 13,802,811	\$ 64,038,918	\$ 41,983,673	\$ 119,825,402
<b>Statement of Changes in Plan Net Position</b>				
Additions:				
Contributions:				
Employer	\$ 577,431	\$ 8,248,725	\$ 4,583,476	\$ 13,409,632
Plan members	13,537	706,019	789,155	1,508,711
Total contributions	590,968	8,954,744	5,372,631	14,918,343
Investment income:				
Net appreciation in fair value of investments	1,349,642	5,467,609	3,873,790	10,691,041
Interest and dividends	328,372	1,375,311	935,131	2,638,814
Less investment expenses	(21,133)	(52,479)	(42,159)	(115,771)
Net investment income	1,656,881	6,790,441	4,766,762	13,214,084
Other income, miscellaneous	8,302	17,653	9,312	35,267
Total additions	2,256,151	15,762,838	10,148,705	28,167,694
Deductions:				
Benefits paid to recipients	2,482,160	9,521,804	8,224,567	20,228,531
Administrative and other fees	4,966	13,748	10,576	29,290
Total deductions	2,487,126	9,535,552	8,235,143	20,257,821
Increase (decrease) in net position	(230,975)	6,227,286	1,913,562	7,909,873
Net position restricted for pension benefits:				
Beginning of year	14,033,786	57,811,632	40,070,111	111,915,529
End of year	\$ 13,802,811	\$ 64,038,918	\$ 41,983,673	\$ 119,825,402

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

### 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.

### Summary of Significant Accounting Policies

The financial statements of the pension plans are reported 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.

The following table provides information concerning types of covered employees and benefit provisions for each of the three City Plans at January 1, 2012 and at December 31, 2012 for the PMRS Plan. Benefit provisions and their amendments are authorized by the separate Pension Boards for the Police, Firemen, and Officers and Employees Plans and by the Pennsylvania State Act 15 for the PMRS Plan.

	Officers and Employees	Police	Firemen	PMRS
Covered Employees	Closed 6/8/1976	All full-time members of the Police Force	All full-time members of the Fire Department	All full-time employees not previously covered
Number of active plan members	4	181	108	491
Number of retirees and beneficiaries receiving benefits	184	285	223	310
Terminated employees entitled to deferred benefits	-	1	-	14

### 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' annual actuarial valuation. The most recent valuation for all of the City's Plans was completed as of January 1, 2012. The MMO includes the normal cost, estimated

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

administrative expenses, and an amortization of the unfunded actuarial accrued liability. Act 44 provided for a reduction in the amortization requirement by 25% for the five-year period from 2010 through 2014. This reduction is reflected in the final MMO calculation. The state provides an allocation of funds that must be used for pension funding. Any financial requirements established by the MMO that exceed state and member contributions must be funded by the employer.

Police 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 Police, Firemen, and Officers and Employees Defined Benefit Pension Plans for the current year were as follows:

	Officers and Employees	Police	Firemen
Annual required contribution (MMO)	\$ 512,669	\$ 7,324,133	\$ 4,069,771
Interest on net pension asset	(3,770)	(58,623)	(34,397)
Adjustment to annual required contribution	4,444	69,108	40,549
Annual pension cost	513,343	7,334,618	4,075,923
Contributions made	577,431	8,248,725	4,583,476
Increase in net pension asset	(64,088)	(914,107)	(507,553)
Net pension asset, beginning of year	(47,125)	(732,790)	(429,966)
Net pension asset, end of year	\$ (111,213)	\$ (1,646,897)	\$ (937,519)

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

	Three-Year Trend Information			
		Annual Pension	Percentage	Net
	Fiscal Year	Cost (APC)	of APC Contributed	Pension Asset
Officers and Employees	12/31/10	\$ 343,958	99.9%	\$ 29,409
	12/31/11	514,434	103.4%	47,125
	12/31/12	513,343	112.5%	111,213
Police	12/31/10	5,733,695	99.9%	480,537
	12/31/11	7,345,591	103.4%	732,790
	12/31/12	7,334,618	112.5%	1,646,897
Firemen	12/31/10	3,137,617	99.9%	287,857
	12/31/11	4,151,067	103.4%	429,966
	12/31/12	4,075,923	112.5%	937,519
Pennsylvania Municipal	12/31/10	1,186,454	100.0%	-
Retirement Plan	12/31/11	1,367,093	100.0%	-
	12/31/12	1,299,757	100.0%	-

The annual required contribution for each of the Plans for the current year was determined as part of the January 1, 2009 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 4.5% and 3.5% per year with and without merit increases, respectively, for the Police Plan, 4.5% per year for the Officers and Employees and Firemen Plans, and an age-related scale for merit/seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%; with 2.0% added for each of the first 3 years of service) for PMRS, and (c) an inflation assumption included in the assumptions for (a) and (b) above for Police, Fire, and Officers and Employees, and a 3.0% inflation rate for the PMRS Plan, which is reflected in assumption (b). The actuarial value of assets was based on market value plus end of year accrual adjustments, if any.

### Investments That Represent Five Percent or More of Plan Net Position

At December 31, 2012, none of the Plans had investments in any one organization which represented five percent or more of the plan net position.

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

### 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 is 13.94 years for the Officers and Employees Plan, 15.77 years for the Police Plan, 16.65 years for the Firemen Plan, and 19.88 years for the PMRS plan.

### Funded Status and Funding Progress:

The funded status of the City's pension funds as of January 1, 2012, the most recent actuarial valuation date for the Officers and Employees, Police, and Firemen Plans and January 1, 2011, the most recent actuarial valuation date for the PMRS Plan, is as follows:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL/(AAL) as a Percentage of Covered Payroll ((b-a)/c)
Officers and Employees Plan	\$ 15,066,664	\$ 19,480,687	\$ 4,414,023	77.34%	\$ 250,324	1763.32%
Police Pension Fund Plan	\$ 62,180,973	\$ 149,835,573	\$ 87,654,600	41.50%	\$ 13,788,954	635.69%
Firemen Pension Fund Plan	\$ 43,074,495	\$ 105,216,504	\$ 62,142,009	40.94%	\$ 7,558,653	822.13%
Pennsylvania Municipal Retirement System Plan	\$ 126,518,465	\$ 132,493,119	\$ 5,974,654	95.49%	\$ 28,305,537	21.11%

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

YEAR ENDED DECEMBER 31, 2012

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### Discretely Presented Component Units' Pension Plan

#### *Authority*

The Authority has a defined contribution pension plan as established under Code Section 403(b) for all employees. The Authority matches 100% of employee contributions up to the first 7% of employee deferral contributions. The Authority's pension expense for the year ended December 31, 2012 was \$759.

#### *Parking Authority*

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

The Allentown Parking Authority Union Employees' Defined Contribution Retirement Plan is designed to provide retirement benefit to the Parking Authority's eligible union employees. The plan covers all eligible employees over the age of 19 with one year of service with the Parking Authority. Employer contributions to the plan are established by the Union's collective bargaining agreement. Employer contributions were fixed at 5% by the collective bargaining agreement for the year ended December 31, 2012. Participant contributions are on a voluntary basis up to 10% of compensation. The plan's provisions may be amended by resolution of the Parking Authority's Board of Directors, subject to 90 days' written notice to the plan's Trustee. No modification that affects the rights, duties, and responsibilities of the Trustee may be made without the Trustee's consent.

#### *Allentown Parking Authority Salaried Employees' Defined Contribution Retirement Plan*

The Parking Authority's Salaried Employees' Defined Contribution Retirement Plan provides retirement benefits to the Authority's eligible salaried employees. This plan covers all salaried employees effective from their date of hire or plan effective date. The Authority contributes on behalf of each salaried employee an amount of 2.0% match for every 1.0% employee contribution. The employer's matching contribution is limited to 10% of earnings and may change from year-to-year. Salaried employees are 100% vested in the plan at time of enrollment.

#### *Allentown Parking Authority Salaried Employees Defined Benefit Pension Plan*

The Parking Authority established the Salaried Employees Defined Benefit Pension Plan (DB Plan), a single employer plan, to provide normal retirement, postponed, disability, vested, and death benefits to plan members and beneficiaries of the Parking Authority's eligible salaried employees. The DB Plan and benefit accruals have been frozen as of

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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December 31, 2010. As of January 1, 2011, the DB Plan was terminated by the Parking Authority's Board of Directors.

### Funding Policy

The contribution requirements of the plan members and the Parking Authority and the DB Plan's benefit provisions are established by Pennsylvania Act 205 and the plan document and may be amended only by the Parking Authority Board. Plan members were required to contribute 5% of their compensation as a condition of membership; however, this condition has been waived as of December 31, 2010. The Authority is required to contribute annually the minimum municipal obligation under PA Act 205.

### Annual Pension Cost and Net Pension Asset

The annual required contribution was determined as part of an actuarial valuation dated January 1, 2012 using the entry age normal cost valuation method. The Parking Authority's annual pension cost and net pension asset to the plan for the plan year ended December 31, 2012 was as follows:

Annual required contribution	\$ -
Interest on net pension asset	(11,747)
Adjustment to annual required contribution	<u>19,917</u>
Annual pension cost	8,170
Contributions made	<u>-</u>
Decrease in net pension asset	8,170
Net pension asset, beginning of year	<u>(156,631)</u>
Net pension asset, end of year	<u><u>\$ (148,461)</u></u>

The net pension asset is included in the Parking Authority's prepaid expenses on the statement of net position.

The actuarial assumptions of the Plan include the following:

- (a) Investment return - 7.5%
  - (b) Post-retirement costs were estimated using the RP-2000 Mortality Table. (Changed from the 1983 Group Mortality Table during 2012)
  - (c) No salary increase is assumed.
  - (d) Retirement is assumed at normal retirement age of 55 or age on valuation date if greater.
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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

- (e) Post-retirement benefits assume a life annuity with 120 monthly payments guaranteed.
- (f) An adjustment for inflation is included in the investment return and salary increase assumptions.

### Asset Valuation

Plan assets are valued using a five-year fresh start smoothing method described in the Internal Revenue Procedure 2000-40, Approval 16. PA Act 44 allows the actuarial value of assets to not be greater than 130% or less than 70% of market value.

### Trend Information

Trend information for the DB Plan is as follows:

Three-Year Trend Information			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
12/31/2010	\$ 190,125	95%	\$ 165,250
12/31/2011	111,119	92%	156,631
12/31/2012	8,170	0%	148,461

The Parking Authority's pension expense amounted to \$104,408 for the year ended December 31, 2012.

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 value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2011	\$ 2,793,687	\$ 2,732,901	\$ (60,786)	102.22%	N/A	N/A

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

### 8. LONG-TERM DEBT

The City issues notes and bonds payable to finance the capital projects of the City. Long-term debt activity of the City's governmental activities for the year ended December 31, 2012 was as follows:

Notes and Bonds	Balance Outstanding January 1, 2012	Additions	Reductions	Balance Outstanding December 31, 2012	Current Portion
2003 General Obligation Bond, 4.00% to 5.50% interest, partially refunded in 2012 with Series 2012 General Obligation Bonds, remaining balance serial portion payable in increasing annual installments of \$190,000 in 2015 to \$240,000 in 2019	\$ 6,555,000	\$ -	\$ 5,485,000	\$ 1,070,000	\$ -
2004 Federally Taxable General Obligation Refunding Pension Bond, 3.18% to 5.25% interest, serial portion payable in increasing annual installments of \$835,000 in 2013 to \$2,260,000 in 2034	30,555,000	-	275,000	30,280,000	835,000
2004 Federally Taxable General Obligation Refunding Bond, 3.18% to 4.44% interest, serial portion payable in increasing annual installments of \$470,000 in 2013 to \$695,000 in 2014	1,165,000	-	-	1,165,000	470,000
2004 Tax-Exempt General Obligation Bond, 4.00% to 5.00% interest, serial portion payable in increasing annual installments of \$310,000 in 2013 to \$490,000 in 2024	5,020,000	-	295,000	4,725,000	310,000
2006 Note, 3.85% interest, varying principal annual payments of \$274,400 in 2013 to \$286,400 in 2014	826,800	-	266,000	560,800	274,400

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Notes and Bonds	Balance Outstanding January 1, 2012	Additions	Reductions	Balance Outstanding December 31, 2012	Current Portion
2006 Guaranteed Lease Revenue Note, 5.84% to 2016, then LIBOR plus 40 basis points, capped at 9.40%, payable in annual installments of \$155,000 in 2013 to \$917,578 in 2031	9,366,368	-	146,750	9,219,618	155,000
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	19,345,769	1,344,412	-	20,690,181	-
2007 Taxable General Obligation Note, 5.62% to 5.87% payable in varying annual installments of \$35,000 in 2013 to \$45,000 in 2021	7,885,000	-	35,000	7,850,000	35,000
2008 Taxable General Obligation Bond, 3.00% to 3.7% payable in varying annual installments of \$730,000 in 2013 to \$315,000 in 2018	4,100,000	-	1,080,000	3,020,000	730,000
2009 Tax-Exempt General Obligation Bond, 4.13% interest, serial portion payable in increasing annual installments of \$295,000 in 2013 to \$465,000 in 2024	4,777,000	-	283,000	4,494,000	295,000
2011 Tax-Exempt General Obligation Bond, 2.00% to 5.50% payable in varying annual installments of \$90,000 in 2013 to \$540,000 in 2036	6,350,000	-	90,000	6,260,000	90,000

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Notes and Bonds	Balance Outstanding January 1, 2012	Additions	Reductions	Balance Outstanding December 31, 2012	Current Portion
2011 Series A Tax-Exempt General Obligation Bond, 2.00% to 4.75% payable in varying annual installments of \$555,000 in 2013 to \$255,000 in 2036	7,340,000	-	555,000	6,785,000	555,000
2012 General Obligation Bond, 0.50% to 3.00% payable in varying annual installment of \$125,000 in 2013 to \$740,000 in 2022	-	5,910,000	200,000	5,710,000	125,000
Total Governmental Activities Notes and Bonds	103,285,937	7,254,412	8,710,750	101,829,599	3,874,400
Premium on bond issuance	978,082	16,111	463,547	530,646	-
Deferred gain on refunding	-	428,897	38,991	389,906	-
Total	<u>\$ 104,264,019</u>	<u>\$ 7,699,420</u>	<u>\$ 9,213,288</u>	<u>\$ 102,750,151</u>	<u>\$ 3,874,400</u>

Long-term debt activity of the City's business-type activities for the year ended December 31, 2012 was as follows:

Notes and Bonds	Balance Outstanding January 1, 2012	Additions	Reductions	Balance Outstanding December 31, 2012	Current Portion
2001 Guaranteed Water Revenue Bonds, 4.50% to 5.50% interest. Final payment made made in 2012	\$ 320,000	\$ -	\$ 320,000	\$ -	\$ -
2003 Guaranteed Water Revenue Refunding Bonds, 3.55% to 4.375% interest, serial portion payable in varying annual installments of \$85,000 in 2013 to \$110,000 in 2019	760,000	-	85,000	675,000	85,000

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Notes and Bonds	Balance Outstanding January 1, 2012	Additions	Reductions	Balance Outstanding December 31, 2012	Current Portion
2003 Guaranteed Sewer Revenue Refunding Bonds, 3.55% to 4.40% interest, serial portion payable in annual installments of \$340,000 in 2013 to \$255,000 in 2020	3,285,000	-	325,000	2,960,000	340,000
2004 Guaranteed Water Revenue Bonds, 3.00% to 4.40% interest, serial portion payable in varying annual installments of \$140,000 in 2013 to \$95,000 in 2024	1,775,000	-	135,000	1,640,000	140,000
2004 Guaranteed Sewer Revenue Bonds, 3.00% to 4.00% interest, serial portion payable in increasing annual installments of \$30,000 in 2013 to \$35,000 in 2018	210,000	-	25,000	185,000	30,000
2006 Water Note, 3.85% interest, varying principal annual payments of \$411,600 in 2013 to \$429,600 in 2014	1,240,200	-	399,000	841,200	411,600
2008 Guaranteed Water Revenue Bonds, 3.00% to 3.70% interest, varying principal annual payments of \$665,000 in 2013 to \$30,000 in 2018	2,160,000	-	845,000	1,315,000	665,000
2008 Guaranteed Sewer Revenue Bonds, 3.00% to 3.70% interest, varying principal annual payments of \$800,000 in 2013 to \$490,000 in 2018	3,960,000	-	865,000	3,095,000	800,000
2011 Tax-Exempt General Obligation Bonds - Water, 2.00% to 5.00% interest, varying principal annual payments of \$5,000 in 2013 to \$305,000 in 2026	1,210,000	-	5,000	1,205,000	5,000

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Notes and Bonds	Balance Outstanding January 1, 2012	Additions	Reductions	Balance Outstanding December 31, 2012	Current Portion
2011 Tax-Exempt General Obligation Bonds - Sewer, 2.00% to 5.00% interest, varying principal annual payments of \$5,000 in 2013 to 735,000 in 2026	4,050,000	-	5,000	4,045,000	5,000
2011 Series A Tax-Exempt General Obligation Bonds - Water, 2.00% to 3.38% interest, varying principal annual payments of \$1,155,000 in 2013 to \$80,000 in 2021	4,795,000	-	810,000	3,985,000	1,155,000
2011 Series A Tax-Exempt General Obligation Bonds - Sewer, 2.00% to 3.38% interest, varying principal annual payments of \$105,000 in 2013 to \$130,000 in 2021	1,140,000	-	105,000	1,035,000	105,000
2012 Penn Vest Loan, 1.00% fixed interest only during construction period, with principal and interest interest payments beginning at completion of construction and continuing for 20 years	-	199,476	-	199,476	-
2012 Penn Vest Loan, 1.00% fixed interest only during construction period, with principal and interest interest payments beginning at completion of construction and continuing for 20 years	-	1,940,647	-	1,940,647	-
Total	<u>\$ 24,900,200</u>	<u>\$ 2,140,123</u>	<u>\$ 3,924,000</u>	<u>\$ 23,116,323</u>	<u>\$ 3,741,600</u>

In January 2012, the City entered into two loan agreements with the Pennsylvania Infrastructure Authority (PennVest) for water main repairs and an automatic meter reading project in the amount of \$672,000 and \$8,612,681, respectively. The loans are structured as interest-only loans during the construction period, with principal and interest payments beginning at the completion of construction and continuing for a period of 20 years. The loans are secured by the revenues of the water system.

During the year ended December 31, 2012, \$199,476 was drawn down on the \$672,000 loan and \$1,940,647 was drawn down on the \$8,612,681 loan.

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

In March 2012, the City issued General Obligation Bonds, Series of 2012, in the aggregate principal amount of \$5,910,000. The proceeds of the Bonds were used for: (1) advance refunding a portion of the City's General Obligation Bonds, Series of 2003, and (2) paying the costs of issuing and insuring the Bonds.

The Series of 2012 Bonds bear interest from .50% to 3.00% and are due in semi-annual installments ranging from \$125,000 to \$740,000 beginning October 15, 2012 through October 15, 2022.

Debt service requirements to maturity, including interest of \$94,609,720, are as follows:

<u>Year Ending</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
2013	\$ 7,702,335	\$ 4,534,891	\$ 12,237,226
2014	7,711,364	3,823,407	11,534,771
2015	8,151,399	3,404,378	11,555,777
2016	8,146,807	2,207,310	10,354,117
2017	8,135,415	2,022,527	10,157,942
2018-2022	40,737,687	7,354,671	48,092,358
2023-2027	39,955,152	4,576,472	44,531,624
2028-2032	39,370,476	208,952	39,579,428
2033-2036	31,512,399	-	31,512,399
Total	<u>\$ 191,423,034</u>	<u>\$ 28,132,608</u>	<u>\$ 219,555,642</u>

### Defeasance of Debt

In March 2012, the City advance refunded \$5,315,000 aggregate principal amount of a portion of the Series of 2003 bonds. The advance refunding decreased the City's total debt service by \$447,913 through the year 2022 and resulted in an economic gain (difference between present values of the old and new debt service payments) in the amount of \$448,491.

The City has invested monies in escrow with the Trustee sufficient to pay the outstanding defeased portion of the Series of 2003 bonds to maturity. As of December 31, 2012, \$4,880,000 of the Series 2003 bonds are outstanding.

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

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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, 2012, \$12,610,000 of general obligation bonds (includes the advance refunding of the Series 2003 bonds), \$1,275,000 of water revenue bonds, and \$2,965,000 of sewer revenue bonds outstanding are considered defeased.

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

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Current Portion
Compensated absences:					
Governmental activities	\$ 3,008,459	\$ 3,332,301	\$ 3,184,976	\$ 3,155,784	\$ 2,467,824
Business-type activities	864,189	854,306	823,006	895,489	856,872
Total accrued compensated absences	<u>\$ 3,872,648</u>	<u>\$ 4,186,607</u>	<u>\$ 4,007,982</u>	<u>\$ 4,051,273</u>	<u>\$ 3,324,696</u>
Capital leases:					
Governmental activities	\$ 906,186	\$ -	\$ 251,454	\$ 654,732	\$ 120,614
Business-type activities	465,098	306,260	126,541	644,817	132,871
Total capital leases	<u>\$ 1,371,284</u>	<u>\$ 306,260</u>	<u>\$ 377,995</u>	<u>\$ 1,299,549</u>	<u>\$ 253,485</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:

	Governmental Activities	Business-type Activities
Machinery, equipment, and vehicles	\$ 1,321,208	\$ 1,176,963
Less accumulated depreciation	470,751	226,920
	<u>\$ 850,457</u>	<u>\$ 950,043</u>

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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>
2013	\$ 147,534	\$ 155,442	\$ 302,976
2014	147,534	140,512	288,046
2015	147,534	140,512	288,046
2016	147,534	140,512	288,046
2017	147,534	43,813	191,347
Thereafter	-	87,626	87,626
	<u>737,670</u>	<u>708,417</u>	<u>1,446,087</u>
Less interest	82,938	63,600	146,538
Total	<u>\$ 654,732</u>	<u>\$ 644,817</u>	<u>\$ 1,299,549</u>

### Discretely Presented Component Units' Long-Term Debt:

#### *Authority*

At December 31, 2012, notes payable consist of the following:

	<u>Balance January 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2012</u>	<u>Current Portion</u>
A note payable at a rate of 4.50% with a local bank, paid in full on December 1, 2012.	\$ -	\$ 250,000	\$ 250,000	\$ -	\$ -
A non-interest bearing deferred payment loan with the City of Allentown for the rehabilitation of a property, due upon the sale or transfer of an interest in or the entire property.	-	75,000	-	75,000	75,000
A commercial real estate loan, to a maximum availability of \$550,000, secured by property with a bank at the Wall Street Journal prime rate of 4.50% due upon the sale of the property. The property was sold in March 2012. The loan was paid in full.	400,000	-	400,000	-	-
	<u>\$ 400,000</u>	<u>\$ 325,000</u>	<u>\$ 650,000</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

### *Parking Authority*

Long-term debt activity of the Parking Authority for the year ended December 31, 2012 consisted of the following:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Current Portion
2003 Guaranteed Parking Revenue Bonds, 3.25% to 3.90% interest, serial portion payable in increasing annual installments of \$320,000 in 2013 to \$355,000 in 2016	\$ 1,660,000	\$ -	\$ 310,000	\$ 1,350,000	\$ 320,000
2004 Guaranteed Parking Revenue Refunding Bonds, 3.25% to 3.50% interest, serial portion payable in increasing annual installments of \$695,000 in 2013	1,365,000	-	670,000	695,000	695,000
2005 Guaranteed Parking Revenue Bonds, 4.00% to 5.00% interest, serial portion payable in increasing annual installments of \$275,000 in 2013 to \$730,000 in 2035	10,840,000	-	265,000	10,575,000	275,000
2007 Parking Revenue Bond, 4.20%, serial portion payable in increasing annual installments of \$90,000 in 2013 to \$275,000 in 2031	3,350,000	-	85,000	3,265,000	90,000
2011 Parking Revenue Bond, variable interest at 65% prime (2.11% at December 31, 2011), serial portion payable in annual installments of \$121,250 through 2019	970,000	-	121,250	848,750	121,250
	18,185,000	-	1,451,250	16,733,750	1,501,250
Less unamortized deferred costs of refunding	156,106	-	28,123	127,983	37,095
	18,028,894	-	1,423,127	16,605,767	<u>\$ 1,464,155</u>
Capital lease	-	353,792	16,797	336,995	
	18,028,894	353,792	1,439,924	16,942,762	
Unearned revenue	9,693,460	-	322,610	9,370,850	
OPEB liability	30,913	20,850	-	50,495	
	<u>\$ 27,753,267</u>	<u>\$ 374,642</u>	<u>\$ 1,762,534</u>	<u>\$ 26,364,107</u>	

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The Parking Authority has established a line of credit with a local bank in the amount of \$1,000,000. The purpose of the line of credit is to provide temporary funding for improvements to the Parking Authority's parking facilities. The interest rate on the line of credit is equal to the bank's floating taxable prime rate with a floor of 3.5%. As of December 31, 2012, the rate of this line is 3.5%.

Short-term debt activity for the year ended December 31, 2012 is as follows:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012
Line of credit	\$ 340,853	\$ -	\$ -	\$ 340,853

The City guarantees the Parking Authority's 2003, 2004, and 2005 parking revenue bonds. All of the Parking Authority's parking revenue bonds are secured by the pledge of the Parking Authority's revenues.

Debt service requirements to maturity, including interest of \$8,917,642, are as follows for the Parking Authority:

<u>Year Ending</u>	<u>Total</u>
2013	\$ 2,296,722
2014	1,583,485
2015	1,587,858
2016	1,585,852
2017	1,197,916
2018-2022	5,343,429
2023-2027	5,147,621
2028-2032	4,948,504
2033-2035	2,297,000
Total	<u>\$ 25,988,387</u>

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 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:

	2012	2011
Accrued claims liability, January 1	\$ 870,742	\$ 2,202,589
Incurred claims, including estimated claims incurred by not reported as of December 31):		
Provision for current year events	1,657,875	1,309,903
Payments	(1,716,513)	(2,641,752)
Accrued claims liability, December 31	<u>\$ 812,104</u>	<u>\$ 870,740</u>
Current portion	<u>\$ 812,104</u>	<u>\$ 870,740</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, 2013.

#### Discretely Presented Component Units' Risk Management

##### *Parking Authority*

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

The Parking Authority is a member of the Lehigh Valley Insurance Cooperative (LVIC), a pool of municipalities to purchase health insurance coverage. The purpose of the cooperative is to control escalating health care premiums by allowing municipalities the potential for volume discounts and annual premium returns for favorable claims experience. Rates for each municipality are developed annually with a final reconciliation of total premiums to actual claims made approximately six months after each policy year-end. Allocation of any surplus is determined by a board of officers appointed by participants. Unfavorable

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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experience is included in the following year rates. Maximum limits for any one claim are established to minimize cost exposure. A 10% reserve is built into the rates to cover the cooperative's operating costs and any unfavorable experience.

### 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 between 25% and 50% 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.

The City's annual other post-employment benefit (OPEB) cost expense for the 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 the plan are as follows:

Annual required contribution (ARC)	\$ 4,663,870
Interest on net OPEB obligation	270,882
Adjustment to ARC	<u>(423,711)</u>
Annual OPEB cost	4,511,041
Contributions made	<u>2,870,138</u>
Increase in net OPEB obligation	1,640,903
Net OPEB obligation, beginning of year	<u>6,772,083</u>
Net OPEB obligation, end of year	<u><u>\$ 8,412,986</u></u>

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# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2010	\$ 3,681,997	58%	\$ 5,476,295
12/31/2011	3,775,719	66%	6,772,083
12/31/2012	4,511,041	64%	8,412,986

Funded status and funding progress:

The funded status of the plan as of January 1, 2012, the most recent actuarial valuation, was as follows:

<u>Actuarial Value of Assets</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
\$ -	\$ 61,446,071	0%	\$ 45,638,245	135%

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:

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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Actuarial valuation date	January 1, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed period
Remaining amortization period	26 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 a 10% increase in 2012, decreasing 2% to an 8% increase in 2013, followed by a 9% increase in 2014, an 8% increase in 2015, and a 6.5% increase in 2016, then decreasing by 0.5% each year to a 5% increase for 2019 and later

### Discretely Presented Component Units' OPEB Plan

#### *Parking Authority*

The Parking Authority has established a single-employer defined benefit postemployment benefit plan (OPEB Plan) to provide for payment of health care insurance premiums for eligible retired employees. The OPEB Plan's financial statements are included as a trust fund in the Parking Authority's financial statements.

The Parking Authority provides continuation of medical insurance coverage to employees who retire at a minimum age of 55 from a management position with at least 20 years of management service. The employee must be actively employed up to age 55 to be eligible. The single employer plan allows for participation in the Parking Authority's "basic" medical plan, which includes a prescription drug benefit. The authority under which obligations to contribute are established is the OPEB Plan document and the Board of Directors. The Parking Authority will pay a percentage of the cost of single coverage to age 65 or until the retiree becomes eligible for Medicare benefits, whichever comes first, at a rate of 80% and 100% for retired employees with more than 20 and 25 years of service, respectively. Coverage may be deferred until a later date prior to eligibility for Medicare, provided the retiree has documentation of continued medical and prescription drug coverage. During the

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

deferment period, the Parking Authority will pay the retiree 25% of the cost of "basic" single coverage. The OPEB Plan also provides for spousal and dependent coverage, provided the premium is paid by the employee.

All benefits to management employees will be reviewed at various times in the future and, thus, costs and benefits are subject to change with the approval of the Parking Authority's Board of Directors.

The number of participants as of January 1, 2011, the date of the OPEB valuation, is 12 active employees and one retired employee. There have been no significant changes in the number covered or the type of coverage since that date.

### Funding Status and Progress

The Parking Authority established a trust to accumulate and invest assets necessary to pay for the accumulated and current liabilities. The actuarial value of assets is valued at fair value.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
1/1/2011	\$ 52,414	\$ 449,381	\$ 396,967	11.66%	\$ 615,954	64.45%

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### Annual OPEB Cost and Net OPEB Obligation

The Parking Authority's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). 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 following table shows the components of the Parking Authority's annual OPEB cost for the year, the amount actually contributed to the OPEB Plan, and changes in the Parking Authority's net OPEB obligation to the OPEB Plan:

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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Annual required contribution (ARC)	\$ 51,922
Interest on net OPEB obligation	1,700
Adjustment to ARC	<u>(2,262)</u>
Annual OPEB cost	51,360
Contributions made	<u>31,778</u>
Increase in net OPEB obligation	19,582
Net OPEB obligation, beginning of year	<u>30,913</u>
Net OPEB obligation, end of year	<u><u>\$ 50,495</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation for the year ending December 31, 2012 was as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2010	\$ 33,574	115%	\$ 10,063
12/31/2011	51,891	60%	30,913
12/31/2012	51,360	62%	50,495

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The actuarial methods and assumptions used include techniques that are designed to reduce the effective of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with a long-term perspective of the calculations.

The unfunded actuarial accrued liability is being amortized over the future working lifetime of active participants as a level dollar open basis.

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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In the January 1, 2011 actuarial valuation, the liabilities were computed using the entry age normal cost method and level dollar amortization. The actuarial assumptions utilized a 5.5% discount rate and were based on partial funding of the liability. The valuation assumes a 9% healthcare cost trend increase for fiscal year 2011, decreasing by 0.5% per year to 5% in 2019 and thereafter. The actuarial value of assets is valued at fair value.

### 11. LEASING ACTIVITIES

#### *Parking Authority*

The Parking Authority leases office space and parking facilities to third parties under operating lease agreements. The rents are determined based on the square footage being rented and are subject to periodic increases. The agreements also include various renewal options after the initial term expires. Minimum future rental income from the operating leases as of December 31, 2012 is as follows:

<u>Year Ending</u>	<u>Total</u>
2013	\$ 139,920
2014	99,920
2015	99,920
2016	99,920
2017	99,920
Thereafter	<u>7,439,283</u>
Total	<u>\$ 7,978,883</u>

In December 2012, the Authority entered into an additional long-term agreement to lease parking facilities to a third party for \$10,000 per month. The term of the agreement is for twenty years and commences upon receiving an election notice from the tenant. The term is expected to begin between March 1, 2014 and June 1, 2014. After five years and then each year thereafter, the base rent increases based upon the change in the Consumer Price Index. The tenant has the option to renew the lease for two additional five-year terms after the original twenty-year lease.

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 12. COMMITMENTS AND CONTINGENCIES

#### Construction

The City, through the Capital Projects Fund, entered into contracts with construction contractors with a remaining commitment at December 31, 2012 of approximately \$15 million.

#### 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, 2012, 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

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.

#### Discretely Presented Component Units' Commitments and Contingencies

##### *Authority*

In the normal course of business, the Authority is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the financial statements.

A matter of litigation was brought against the Authority involving a claim for reimbursement of costs and expenses incurred by a condemnee as a result of condemnation proceedings by the Authority (condemnor) that were ultimately determined to be invalid. The Authority initiated condemnation proceedings in 2008 based on the blighted condition of the property owned by the condemnee. By Order dated January 13, 2011, the Court of Common Pleas of Lehigh County found the condemnation to be invalid. The Authority appealed the decision to the Commonwealth Court of Pennsylvania who ultimately affirmed the Court of Common Pleas' decision in October 2011. A request for reargument was denied, and the

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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Commonwealth Court decision became final in January 2012. In April 2012, the condemnee filed a motion to recover costs, expenses, and damages resulting from the condemnation proceedings. In July 2012, an Order of the Court granted the condemnee motion for costs and expenses pursuant to Section 306(g) of the Eminent Domain Code, subject to a future hearing to determine the nature and amount of such costs.

### *Parking Authority*

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

## **13. SUBSEQUENT EVENTS**

On May 1, 2013, the City entered into a Water and Sewer Utility System Concession and Lease Agreement with the Lehigh County Authority. The terms of the agreement provide that the Lehigh County Authority pay the City \$220,000,000 and the City lease the system to the Lehigh County Authority to operate and provide utility services. The lease term will begin on the closing date and expire 50 years from the closing date.

### *Parking Authority*

In January 2013, the Parking Authority entered into a capital lease agreement for parking equipment. The total cost of the equipment is \$330,000 and the monthly lease payments of \$5,798 continue for 60 months, through January 2018.

### *Authority*

In March 2013, the parties entered into a Settlement Agreement that resolves all claims in the litigation noted in Note 13 above. The Settlement Agreement is expected to be finalized by August 30, 2013 and is contingent upon the closing of a real estate transaction whereby the condemned property will be sold to a third party. The proceeds from the sale will be retained by the condemnee in satisfaction of all outstanding claims. The only expenses expected to be incurred by the Authority are any additional legal fees needed to finalize settlement and nominal costs associated with the real estate transfer. In the unlikely event settlement is not finalized, there will be a hearing to determine an assessment of costs and expenses owed by the Authority.

**Required Supplementary  
Information**

# CITY OF ALLENTOWN, PENNSYLVANIA

## BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2012

Revenues:	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Taxes:</b>				
Real estate:				
Current	\$28,891,911	\$28,891,911	\$28,437,403	\$ (454,508)
Prior year	1,210,000	1,210,000	1,404,695	194,695
Lehigh County Tax Claims	1,000	1,000	-	(1,000)
Total real estate taxes	30,102,911	30,102,911	29,842,098	(260,813)
Act 511 taxes:				
Earned income	17,078,605	17,078,605	16,616,858	(461,747)
Earned income escrow - prior years	400,000	400,000	-	(400,000)
Residence per capita	185,000	185,000	205,410	20,410
Amusement devices	21,000	21,000	13,326	(7,674)
Deed transfer	850,000	850,000	974,352	124,352
Local services tax	2,075,000	2,075,000	1,759,179	(315,821)
Business privilege	6,500,000	6,500,000	6,578,613	78,613
Total Act 511 taxes	27,109,605	27,109,605	26,147,738	(961,867)
Total taxes	57,212,516	57,212,516	55,989,836	(1,222,680)
Licenses and permits:				
Business licenses	415,000	415,000	382,193	(32,807)
Billboard and sign permits/licenses	9,240	9,240	8,198	(1,042)
Building permits and licenses	613,994	613,994	729,644	115,650
Plumbing permits and licenses	154,407	154,407	109,281	(45,126)
Electrical permits and licenses	222,326	222,326	193,316	(29,010)
Sheet metal technician license	18,000	18,000	13,520	(4,480)
Liquor licenses	60,000	60,000	52,735	(7,265)
Health bureau permits and licenses	170,000	170,000	188,352	18,352
Rental inspection program	1,850,000	1,850,000	1,940,438	90,438
Presales inspection program	120,000	120,000	120,200	200
Zoning permits and fees	75,000	75,000	66,682	(8,318)
Fire department inspection fees	87,000	87,000	73,577	(13,423)
CATV franchise fees	1,100,000	1,100,000	1,202,614	102,614
Shade tree permits/fees	2,500	2,500	4,160	1,660
Other permits and licenses	167,517	167,517	165,666	(1,851)
Total licenses and permits	5,064,984	5,064,984	5,250,576	185,592
Fines and forfeits:				
District court	310,000	310,000	309,962	(38)
Parking Authority reimbursement	140,000	140,000	174,448	34,448
Fines and restitution	180,000	180,000	150,314	(29,686)
Total fines and forfeits	630,000	630,000	634,724	4,724

(Continued)

See accompanying notes to required supplementary information.

# CITY OF ALLENTOWN, PENNSYLVANIA

## BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2012

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues (Continued):</b>				
Intergovernmental revenue:				
Health grants Acts 315 and 12	804,000	804,000	713,602	(90,398)
Health categorical grants	1,137,773	1,185,498	1,118,529	(66,969)
Police/fire training	270,000	270,000	274,153	4,153
State aid for pension	3,597,380	3,597,380	3,896,623	299,243
Police grants/reimbursements	2,733,752	2,733,752	2,386,611	(347,141)
Forfeiture receipts	-	-	69,574	69,574
Casino fee	4,095,080	4,095,080	3,734,747	(360,333)
Other grants/miscellaneous	863,519	1,894,439	2,027,650	133,211
Total intergovernmental revenue	<u>13,501,504</u>	<u>14,580,149</u>	<u>14,221,489</u>	<u>(358,660)</u>
Charges for services:				
Departmental earnings:				
Tax/municipal certifications	100,000	100,000	115,960	15,960
Police extra duty jobs	570,000	584,113	574,448	(9,665)
Health bureau services	19,900	19,900	248,205	228,305
Street excavation/restoration	30,000	30,000	20,051	(9,949)
Printing and copier fees	75,000	75,000	80,410	5,410
Other charges for service	250,000	250,000	46,468	(203,532)
Vehicle towing agreement	210,000	210,000	192,000	(18,000)
EMS transit fees	3,875,000	3,875,000	3,203,873	(671,127)
Warrants of survey	12,000	12,000	7,080	(4,920)
Total departmental earnings	<u>5,141,900</u>	<u>5,156,013</u>	<u>4,488,495</u>	<u>(667,518)</u>
Municipal recreation:				
Swimming pool fees	157,500	157,500	156,096	(1,404)
Recreation fees	86,200	86,200	86,071	(129)
Total municipal recreation	<u>243,700</u>	<u>243,700</u>	<u>242,167</u>	<u>(1,533)</u>
General Fund service charges:				
Water service charges	2,131,126	2,131,126	2,131,126	-
Sewer service charges	1,895,741	1,895,741	1,892,741	(3,000)
Other service charges	935,973	935,973	923,617	(12,356)
Total General Fund service charges	<u>4,962,840</u>	<u>4,962,840</u>	<u>4,947,484</u>	<u>(15,356)</u>
Total charges for service	<u>10,348,440</u>	<u>10,362,553</u>	<u>9,678,146</u>	<u>(684,407)</u>
Investment income	<u>6,000</u>	<u>6,000</u>	<u>1,616</u>	<u>(4,384)</u>

(Continued)

See accompanying notes to required supplementary information.

# CITY OF ALLENTOWN, PENNSYLVANIA

## BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2012  
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues (Continued):</b>				
Other income:				
Rental of city property	128,000	128,000	100,969	(27,031)
Contributions	175,000	181,250	149,762	(31,488)
Damage to city property	60,000	60,000	4,215	(55,785)
Lights in parkway	158,000	158,000	169,850	11,850
Pennsylvania Utility Realty Tax	70,000	70,000	66,654	(3,346)
Allentown Housing Authority	50,000	50,000	93,192	43,192
Sale of city property	-	-	295	295
City auction proceeds	30,000	30,000	70,394	40,394
Equipment fund transfer	1,391,233	1,391,233	1,391,233	-
Recreation/special events	3,500	3,500	6,898	3,398
Miscellaneous	1,799,836	1,886,757	1,158,270	(728,487)
Total other income	<u>3,865,569</u>	<u>3,958,740</u>	<u>3,211,732</u>	<u>(747,008)</u>
Total revenues	<u>90,629,013</u>	<u>91,814,942</u>	<u>88,988,119</u>	<u>(2,826,823)</u>
<b>Expenditures:</b>				
General government:				
Nondepartmental:				
City Council	425,426	486,418	352,683	133,735
Office of the Mayor	360,737	360,737	354,329	6,408
City Controller	220,627	220,628	180,130	40,498
Law	612,384	612,384	566,563	45,821
General and civic	4,289,556	4,792,614	4,741,626	50,988
Total nondepartmental	<u>5,908,730</u>	<u>6,472,781</u>	<u>6,195,331</u>	<u>277,450</u>
Department of Finance	<u>3,317,573</u>	<u>4,401,094</u>	<u>4,313,022</u>	<u>88,072</u>
Total Department of Finance	<u>3,317,573</u>	<u>4,401,094</u>	<u>4,313,022</u>	<u>88,072</u>
Human Resources	<u>569,635</u>	<u>569,775</u>	<u>529,703</u>	<u>40,072</u>
Total Human Resources	<u>569,635</u>	<u>569,775</u>	<u>529,703</u>	<u>40,072</u>
Management Systems:				
Management Director and Information Services	1,732,384	1,798,153	1,666,528	131,625
Emergency Medical Services	3,596,356	3,643,126	3,430,101	213,025
Total Management Systems	<u>5,328,740</u>	<u>5,441,279</u>	<u>5,096,629</u>	<u>344,650</u>
Total general government	<u>15,124,678</u>	<u>16,884,929</u>	<u>16,134,685</u>	<u>750,244</u>

(Continued)

See accompanying notes to required supplementary information.

# CITY OF ALLENTOWN, PENNSYLVANIA

## BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2012  
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Expenditures (Continued):</b>				
Public safety:				
Department of Public Safety:				
Police	30,899,713	31,281,430	30,956,429	325,001
Fire	17,858,078	17,857,709	17,994,643	(136,934)
Communications	891,705	915,734	815,638	100,096
Total public safety	<u>49,649,496</u>	<u>50,054,873</u>	<u>49,766,710</u>	<u>288,163</u>
Public works:				
Department of Public Works:				
Director's office	68,154	89,911	75,994	13,917
Building maintenance	1,848,918	1,888,291	1,554,711	333,580
Fleet maintenance operation	3,088,750	3,088,750	3,004,675	84,075
Streets	1,865,452	1,839,519	1,670,906	168,613
Traffic planning and control	687,551	707,494	693,442	14,052
Street lighting	627,542	656,649	597,127	59,522
Total public works	<u>8,186,367</u>	<u>8,270,614</u>	<u>7,596,855</u>	<u>673,759</u>
Health and sanitation:				
Department of Community Development:				
Health	2,847,834	2,906,932	2,645,824	261,108
Total health and sanitation	<u>2,847,834</u>	<u>2,906,932</u>	<u>2,645,824</u>	<u>261,108</u>
Parks and recreation:				
Department of Community Development:				
Park maintenance	508,927	509,009	422,670	86,339
Recreation	552,357	552,908	537,762	15,146
Swimming pool operation	360,785	361,914	334,543	27,371
Total parks and recreation	<u>1,422,069</u>	<u>1,423,831</u>	<u>1,294,975</u>	<u>128,856</u>
Community development:				
Department of Community Development:				
Director's office	623,807	1,106,740	1,044,081	62,659
Planning and zoning	860,974	1,224,004	1,155,804	68,200
Building standards and safety	2,234,493	2,303,596	2,263,975	39,621
Total community development and planning	<u>3,719,274</u>	<u>4,634,340</u>	<u>4,463,860</u>	<u>170,480</u>
Capital outlays	<u>1,391,233</u>	<u>1,568,249</u>	<u>1,447,703</u>	<u>120,546</u>
Total capital outlays	<u>1,391,233</u>	<u>1,568,249</u>	<u>1,447,703</u>	<u>120,546</u>
Total expenditures	<u>82,340,951</u>	<u>85,743,768</u>	<u>83,350,612</u>	<u>2,393,156</u>

(Continued)

See accompanying notes to required supplementary information.

# CITY OF ALLENTOWN, PENNSYLVANIA

## BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2012

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Excess (Deficiency) of Revenues over Expenditures</b>	8,288,062	6,071,174	5,637,507	(433,667)
<b>Other Financing Sources (Uses):</b>				
Transfers in:				
Homeland Security for water/sewer	200,000	200,000	200,000	-
Transfers out:				
Debt Service Fund	(7,578,027)	(7,230,968)	(7,230,968)	-
E-911 Fund	(400,000)	(400,000)	(400,000)	-
Total other financing sources (uses)	(7,778,027)	(7,430,968)	(7,430,968)	-
<b>Net Change in Fund Balance</b>	<b>\$ 510,035</b>	<b>\$ (1,359,794)</b>	<b>(1,793,461)</b>	<b>\$ (433,667)</b>
Add back reservation for encumbrances			903,191	
Budgetary change in fund balance less encumbrances			(890,270)	
Net effect of agency fund, other income, and expenditure accruals			(1,771,448)	
<b>Net Change in Fund Balance</b>			<b>(2,661,718)</b>	
<b>Fund Balance (Deficit):</b>				
Beginning of year			1,920,546	
End of year			<b>\$ (741,172)</b>	

(Concluded)

See accompanying notes to required supplementary information.

# CITY OF ALLENTOWN, PENNSYLVANIA

## NOTES TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2012

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### **1. BUDGETS AND BUDGETARY ACCOUNTING**

Annual budgets as required by the City Charter are adopted by City Council on a cash basis for revenues and modified accrual basis for expenditures, including appropriations to cover prior and anticipated current encumbrances. Appropriations not reserved for encumbrances lapse at year-end. Budgets are legally adopted for the General Fund, Liquid Fuels Fund, Debt Service Fund, and Capital Projects Fund.

The City Administration, 60 days prior to the beginning of the new fiscal year, presents the proposed budgets to City Council. A series of public hearings and discussions occur related to the budgets and on or before December 15, City Council approves the budgets. At the time of the budget adoptions, City Council adopts various ordinance related to tax rates and other rates and fees.

The City Charter requires the City's legal level of budgetary control to be at the fund level. As a management control, the Finance Director has the power to authorize the transfer of any unexpended balance between accounts within a fund.

For the year ended December 31, 2012, for all legally budgeted funds, budgetary expenditures did not exceed appropriations.

# CITY OF ALLENTOWN, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF FUNDING PROGRESS

### Pennsylvania Municipal Retirement System Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2007	\$ 101,184,335	\$ 87,426,679	\$ (13,757,656)	115.74%	\$ 24,003,648	-57.31%
1/1/2009	115,563,078	100,741,210	(14,821,868)	114.71%	27,337,110	-54.22%
1/1/2011	126,518,465	132,493,119	5,974,654	95.49%	28,305,537	21.11%

### City Plans:

#### Officers and Employees Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2005	\$ 25,215,689	\$ 28,033,347	\$ 2,817,658	89.95%	\$ 431,051	653.67%
1/1/2007	21,982,132	25,711,360	3,729,228	85.50%	327,197	1139.75%
1/1/2009	17,238,602	23,095,953	5,857,351	74.64%	370,644	1580.32%
1/1/2010	18,745,413	22,356,710	3,611,297	83.85%	386,999	933.15%
1/1/2011	16,902,051	20,896,120	3,994,069	80.89%	314,909	1268.32%
1/1/2012	15,066,664	19,480,687	4,414,023	77.34%	250,324	1763.32%

#### Police Pension Fund Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2005	\$ 62,621,976	\$ 110,991,994	\$ 48,370,018	56.42%	\$ 9,429,081	512.99%
1/1/2007	64,733,840	114,801,290	50,067,450	56.39%	10,126,336	494.43%
1/1/2009	62,199,346	132,505,514	70,306,168	46.94%	11,384,012	617.59%
1/1/2010	63,645,665	138,286,771	74,641,106	46.02%	13,001,025	574.12%
1/1/2011	62,355,723	142,839,885	80,484,162	43.65%	13,821,650	582.31%
1/1/2012	62,180,973	149,835,573	87,654,600	41.50%	13,788,954	635.69%

#### Firemen Pension Fund Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2005	\$ 42,012,732	\$ 61,631,376	\$ 19,618,644	68.17%	\$ 7,310,105	268.38%
1/1/2007	43,525,113	64,764,292	21,239,179	67.21%	7,350,267	288.96%
1/1/2009	42,706,507	77,233,681	34,527,174	55.30%	9,386,995	367.82%
1/1/2010	43,397,737	83,711,449	40,313,712	51.84%	10,179,600	396.02%
1/1/2011	43,052,580	90,866,138	47,813,558	47.38%	10,475,590	456.43%
1/1/2012	43,074,495	105,216,504	62,142,009	40.94%	7,558,653	822.13%

# CITY OF ALLENTOWN, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF FUNDING PROGRESS

### City Plans:

#### Other Post-Employment Benefit Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2009	\$ -	\$ 51,107,112	\$ 51,107,112	0.00%	\$ 48,978,980	104.34%
1/1/2010	-	50,225,539	50,225,539	0.00%	47,201,802	106.41%
1/1/2012	-	61,446,071	61,446,071	0.00%	45,638,245	134.64%

### Parking Authority:

#### Defined Benefit Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2007	\$ 1,976,195	\$ 2,192,368	\$ 216,173	90.14%	\$ 589,249	36.69%
1/1/2009	2,140,629	2,687,113	546,484	79.66%	619,827	88.17%
1/1/2011	2,793,687	2,732,901	(60,786)	102.22%	N/A	N/A

#### Other Post-Employment Benefit Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	\$ -	\$ 345,602	\$ 345,602	0.00%	\$ 605,005	57.12%
1/1/2011	52,414	449,381	396,967	11.66%	615,954	64.45%

# CITY OF ALLENTOWN, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF EMPLOYER'S CONTRIBUTIONS

Year	Officers and Employees		Police		Firemen	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2007	\$ 528,875	100%	\$ 5,841,327	100%	\$3,049,326	100%
2008	355,279	100%	6,022,935	100%	3,106,329	100%
2009	451,053	100%	7,115,495	100%	3,565,384	101%
2010	343,531	100%	5,726,720	100%	3,133,439	100%
2011	514,014	104%	7,338,716	104%	4,146,949	104%
2012	512,669	113%	7,324,133	113%	4,069,771	113%

Year	Pennsylvania Municipal Retirement System		Other Post-Employment Benefits	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2007	\$ 1,263,532	100%		
2008	1,374,389	100%	\$ 3,856,279	47%
2009	1,217,945	100%	3,734,207	49%
2010	1,186,454	100%	3,760,413	56%
2011	1,367,093	100%	3,892,027	64%
2012	1,299,757	100%	4,663,870	62%

# CITY OF ALLENTOWN, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION ACTUARIAL INFORMATION

	Police Pension Fund	Firemen Pension Fund	Officers and Employees Pension Fund	Other Post-Employment Benefits
Valuation date	January 1, 2012	January 1, 2012	January 1, 2012	January 1, 2012
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar, closed period	Level dollar, closed period	Level dollar, closed period	Level percentage of payroll, closed period
Amortization period	15.77 years	16.65 years	13.94 years	26 years
Asset valuation method	*	*	*	N/A
Actuarial assumptions:				
Investment rate of return	8.00%	8.00%	8.00%	4.00%
Projected salary increases	3.50%-4.50%	4.50%	4.50%	3.5% per year due to inflation plus 1.5% due to merit

\* Five-year smoothing method described in Internal Revenue Procedures 2000-40, Section 3.16

## **Supplementary Information**

# CITY OF ALLENTOWN, PENNSYLVANIA

## COMBINING BALANCE SHEET OTHER NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2012

Assets	Special Revenue Funds					Debt Service	Total Nonmajor Governmental Funds
	Liquid Fuels	Community Development Block Grant	Revolving Loan	Trexler	E-911		
Cash and cash equivalents	\$ 1,285,178	\$ 463,532	\$ 4,657	\$ -	\$ 1,381,501	\$ -	\$ 3,134,868
Receivables:							
Loans	-	4,268,323	1,091,881	-	-	-	5,360,204
Grants	-	460,441	-	628,807	-	-	1,089,248
Due from other funds	-	-	1,667	-	-	-	1,667
<b>Total Assets</b>	<b>\$ 1,285,178</b>	<b>\$ 5,192,296</b>	<b>\$ 1,098,205</b>	<b>\$ 628,807</b>	<b>\$ 1,381,501</b>	<b>\$ -</b>	<b>\$ 9,585,987</b>
<b>Liabilities and Fund Balance</b>							
Liabilities:							
Accounts payable	\$ 65,251	\$ 122,835	\$ -	\$ 18,259	\$ 1,691	\$ -	\$ 208,036
Wages payable	23,499	-	-	11,987	-	-	35,486
Due to other funds	22,066	229,944	1,320	323,950	747,105	-	1,324,385
Due to other governments	-	151,574	-	-	-	-	151,574
Unearned revenue	-	-	-	303,917	-	-	303,917
Other liabilities	-	84,246	-	-	-	-	84,246
Total Liabilities	110,816	588,599	1,320	658,113	748,796	-	2,107,644
Fund Balance:							
Restricted for:							
Public works	1,174,362	-	-	-	-	-	1,174,362
Community development	-	4,603,697	1,096,885	-	-	-	5,700,582
Public safety	-	-	-	-	632,705	-	632,705
Unassigned	-	-	-	(29,306)	-	-	(29,306)
Total Fund Balance	1,174,362	4,603,697	1,096,885	(29,306)	632,705	-	7,478,343
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,285,178</b>	<b>\$ 5,192,296</b>	<b>\$ 1,098,205</b>	<b>\$ 628,807</b>	<b>\$ 1,381,501</b>	<b>\$ -</b>	<b>\$ 9,585,987</b>

# CITY OF ALLENTOWN, PENNSYLVANIA

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - OTHER NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2012

	Special Revenue Funds					Debt Service	Total Nonmajor Governmental Funds
	Liquid Fuels	Community Development Block Grant	Revolving Loan	Trexler	E-911		
<b>Revenues:</b>							
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ 279	\$ -	\$ 279
Intergovernmental revenues	2,134,590	3,458,402	338,031	1,328,734	-	-	7,259,757
Other	65,807	90,436	6	20,657	1,978,661	-	2,155,567
Total revenues	2,200,397	3,548,838	338,037	1,349,391	1,978,940	-	9,415,603
<b>Expenditures:</b>							
Current:							
General government	-	-	-	-	-	12,012	12,012
Public safety	-	-	-	-	2,652,375	-	2,652,375
Community development	-	3,424,940	1,320	-	-	-	3,426,260
Public works	1,672,511	-	-	-	-	-	1,672,511
Parks and recreation	-	-	-	1,162,549	-	-	1,162,549
Debt service:							
Principal	-	-	-	-	-	3,395,750	3,395,750
Interest	-	-	-	-	-	3,977,475	3,977,475
Capital outlay	142,669	-	-	-	-	-	142,669
Total expenditures	1,815,180	3,424,940	1,320	1,162,549	2,652,375	7,385,237	16,441,601
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	385,217	123,898	336,717	186,842	(673,435)	(7,385,237)	(7,025,998)

(Continued)

# CITY OF ALLENTOWN, PENNSYLVANIA

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - OTHER NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2012  
(Continued)

	Special Revenue Funds						Total Nonmajor Governmental Funds
Liquid Fuels	Community Development Block Grant	Revolving Loan	Trexler	E-911	Debt Service		
<b>Other Financing Sources (Uses):</b>							
Transfers in	-	-	-	-	937,652	7,385,237	8,322,889
Transfers out	-	(97,448)	-	(120,014)	(6,930)	-	(224,392)
Total other financing sources (uses)	-	(97,448)	-	(120,014)	930,722	7,385,237	8,098,497
<b>Net Change in Fund Balance</b>	385,217	26,450	336,717	66,828	257,287	-	1,072,499
<b>Fund Balance (Deficit):</b>							
Beginning of year	789,145	4,577,247	760,168	(96,134)	375,418	-	6,405,844
End of year	<u>\$ 1,174,362</u>	<u>\$ 4,603,697</u>	<u>\$ 1,096,885</u>	<u>\$ (29,306)</u>	<u>\$ 632,705</u>	<u>\$ -</u>	<u>\$ 7,478,343</u>

(Concluded)

# CITY OF ALLENTOWN, PENNSYLVANIA

## BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - CAPITAL PROJECTS FUND

YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Charges for services	\$ -	\$ -	\$ 156,512	\$ 156,512
Intergovernmental revenues	-	65,753,396	6,179,600	(59,573,796)
Other	-	410,310	31,970	(378,340)
Total revenues	<u>-</u>	<u>66,163,706</u>	<u>6,368,082</u>	<u>(59,795,624)</u>
<b>Expenditures:</b>				
Current:				
Capital outlay	62,359,999	127,855,370	31,300,728	96,554,642
Total expenditures	<u>62,359,999</u>	<u>127,855,370</u>	<u>31,300,728</u>	<u>96,554,642</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>(62,359,999)</u>	<u>(61,691,664)</u>	<u>(24,932,646)</u>	<u>36,759,018</u>
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	4,000,000	4,000,000	2,140,123	(1,859,877)
Transfers in	863,000	962,177	962,177	-
Total other financing sources (uses)	<u>4,863,000</u>	<u>4,962,177</u>	<u>3,102,300</u>	<u>(1,859,877)</u>
<b>Net Change in Fund Balance</b>	<u>\$ (57,496,999)</u>	<u>\$ (56,729,487)</u>	<u>(21,830,346)</u>	<u>\$ 34,899,141</u>
Add back reservation for encumbrances - reimbursement grants			10,002,546	
Add back reservation for encumbrances - other			<u>5,978,129</u>	
Budgetary change in fund balance less encumbrances			(5,849,671)	
Net effect of other income and expenditure accruals			<u>1,496,285</u>	
<b>Net Change in Fund Balance</b>			<u>(4,353,386)</u>	
<b>Fund Balance:</b>				
Beginning of year			<u>7,726,559</u>	
End of year			<u>\$ 3,373,173</u>	

# CITY OF ALLENTOWN, PENNSYLVANIA

## BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - LIQUID FUELS FUND

YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
<hr/>				
Intergovernmental revenues:				
PA Liquid Fuels Tax	\$2,024,209	\$2,024,209	\$2,120,384	\$ 96,175
State aid for pension	13,115	13,115	14,206	1,091
Total intergovernmental revenues	<u>2,037,324</u>	<u>2,037,324</u>	<u>2,134,590</u>	<u>97,266</u>
Other income:				
Miscellaneous	5,600	5,600	65,807	60,207
Total other income	<u>5,600</u>	<u>5,600</u>	<u>65,807</u>	<u>60,207</u>
Total revenues	<u>2,042,924</u>	<u>2,042,924</u>	<u>2,200,397</u>	<u>157,473</u>
<b>Expenditures:</b>				
<hr/>				
Public works:				
Department of Public Works:				
Streets	2,141,154	2,219,976	1,854,024	365,952
Total public works	<u>2,141,154</u>	<u>2,219,976</u>	<u>1,854,024</u>	<u>365,952</u>
Total expenditures	<u>2,141,154</u>	<u>2,219,976</u>	<u>1,854,024</u>	<u>365,952</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>(98,230)</u>	<u>(177,052)</u>	<u>346,373</u>	<u>523,425</u>
<b>Net Change in Fund Balance</b>	<u><u>\$ (98,230)</u></u>	<u><u>\$ (177,052)</u></u>	<u>346,373</u>	<u><u>\$ 523,425</u></u>
Add back reservation for encumbrances			<u>38,844</u>	
<b>Net Change in Fund Balance</b>			<u>385,217</u>	
<b>Fund Balance:</b>				
Beginning of year			<u>789,145</u>	
End of year			<u><u>\$1,174,362</u></u>	

# CITY OF ALLENTOWN, PENNSYLVANIA

## BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - DEBT SERVICE FUND

YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Expenditures:</b>				
Current:				
General government	35,000	35,000	12,012	22,988
Debt service - principal	3,196,808	3,395,750	3,395,750	-
Debt service - interest	4,268,430	4,069,488	3,977,475	92,013
Total expenditures	<u>7,500,238</u>	<u>7,500,238</u>	<u>7,385,237</u>	<u>115,001</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>(7,500,238)</u>	<u>(7,500,238)</u>	<u>(7,385,237)</u>	<u>115,001</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	<u>7,500,238</u>	<u>7,500,238</u>	<u>7,385,237</u>	<u>(115,001)</u>
Total other financing sources (uses)	<u>7,500,238</u>	<u>7,500,238</u>	<u>7,385,237</u>	<u>(115,001)</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# CITY OF ALLENTOWN, PENNSYLVANIA

## COMBINING SCHEDULES OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS

YEAR ENDED DECEMBER 31, 2012

	Balance January 1, 2012	Additions	Deductions	Balance December 31, 2012
<b>Earned Income Tax Escrow</b>				
Assets:				
Cash and cash equivalents	\$ 1,041,858	\$ 172,631	\$ 1,029,752	\$ 184,737
Total assets	<u>\$ 1,041,858</u>	<u>\$ 172,631</u>	<u>\$ 1,029,752</u>	<u>\$ 184,737</u>
Liabilities:				
Due to other governments	\$ 1,041,858	\$ 172,631	\$ 1,029,752	\$ 184,737
Total liabilities	<u>\$ 1,041,858</u>	<u>\$ 172,631</u>	<u>\$ 1,029,752</u>	<u>\$ 184,737</u>
<b>Payroll Withholding Funds</b>				
Assets:				
Cash and cash equivalents	\$ 1,213,568	\$ 16,195,247	\$ 16,083,756	\$ 1,325,059
Total assets	<u>\$ 1,213,568</u>	<u>\$ 16,195,247</u>	<u>\$ 16,083,756</u>	<u>\$ 1,325,059</u>
Liabilities:				
Payroll tax liability	\$ 1,193,027	\$ 16,141,888	\$ 16,020,338	\$ 1,314,577
Due to other governments	20,541	53,359	63,418	10,482
Total liabilities	<u>\$ 1,213,568</u>	<u>\$ 16,195,247</u>	<u>\$ 16,083,756</u>	<u>\$ 1,325,059</u>
<b>Tax Collection Fund</b>				
Assets:				
Cash and cash equivalents	\$ 37,897	\$ 42,371	\$ 76,029	\$ 4,239
Total assets	<u>\$ 37,897</u>	<u>\$ 42,371</u>	<u>\$ 76,029</u>	<u>\$ 4,239</u>
Liabilities:				
Due to other governments	\$ 37,897	\$ 42,371	\$ 76,029	\$ 4,239
Total liabilities	<u>\$ 37,897</u>	<u>\$ 42,371</u>	<u>\$ 76,029</u>	<u>\$ 4,239</u>
<b>Total All Agency Funds</b>				
Assets:				
Cash and cash equivalents	\$ 2,293,323	\$ 16,410,249	\$ 17,189,537	\$ 1,514,035
Total assets	<u>\$ 2,293,323</u>	<u>\$ 16,410,249</u>	<u>\$ 17,189,537</u>	<u>\$ 1,514,035</u>
Liabilities:				
Payroll tax liability	\$ 1,193,027	\$ 16,141,888	\$ 16,020,338	\$ 1,314,577
Due to other governments	1,100,296	268,361	1,169,199	199,458
Total liabilities	<u>\$ 2,293,323</u>	<u>\$ 16,410,249</u>	<u>\$ 17,189,537</u>	<u>\$ 1,514,035</u>

# City of Allentown

## Statistical Section

This part of the City of Allentown's comprehensive annual financial report presents detailed information as a context for understanding this year's financial statements, note disclosures, and supplementary information.

<b>Contents</b>	<b>Table</b>
<b>Financial Trends</b>	<b>1 - 5</b>
These tables contain trend information that may assist the reader in assessing the government's current financial performance by placing it in historical perspective.	
<b>Revenue Capacity</b>	<b>6 - 9</b>
These tables contain information that may assist the reader in assessing the viability of the government's most significant local revenue sources.	
<b>Debt Capacity</b>	<b>10 - 14</b>
These tables offer present information that may assist the reader in analyzing the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
<b>Economic &amp; Demographic Information</b>	<b>15 - 16</b>
These tables offer economic and demographic indicators to help the reader understand the environment within which the government's financial activities take place.	
<b>Operating Information</b>	<b>17 - 19</b>
These tables contain service and infrastructure indicators to help the reader understand how the information in the government's financial statements relate to the services the government provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year. The City of Allentown implemented GASB Statement No. 34 in fiscal year 2003; tables presenting government-wide information include information beginning in that year.

**Net Position by Component  
Last Ten Years  
(accrual basis of accounting)**

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Net Investment in Capital Assets	\$ 31,054,583	\$ 20,907,099	\$ 26,835,473	\$ 20,563,347	\$ 17,098,445	\$ 20,127,498	\$ 19,175,187	\$ 25,370,253	\$ 30,108,596	\$ 32,494,392
Restricted	9,006,858	8,421,791	8,910,203	9,594,133	7,971,503	9,304,474	6,172,117	6,107,402	6,648,978	12,274,999
Unrestricted	<u>(36,797,413)</u>	<u>(39,083,486)</u>	<u>(37,369,388)</u>	<u>(21,666,333)</u>	<u>(7,510,520)</u>	<u>(20,610,569)</u>	<u>(23,777,059)</u>	<u>(22,257,663)</u>	<u>(26,754,250)</u>	<u>(33,811,444)</u>
Total governmental activities net position	<u>3,264,028</u>	<u>(9,754,596)</u>	<u>(1,623,712)</u>	<u>8,491,147</u>	<u>17,559,428</u>	<u>8,821,403</u>	<u>1,570,245</u>	<u>9,219,992</u>	<u>10,003,324</u>	<u>10,957,947</u>
Business - type activities										
Net Investment in Capital Assets	44,536,897	48,253,494	53,403,909	57,148,473	58,612,743	60,620,384	62,390,291	63,445,317	64,695,490	68,128,410
Unrestricted	<u>15,657,853</u>	<u>16,817,214</u>	<u>16,656,539</u>	<u>16,984,799</u>	<u>14,828,068</u>	<u>16,822,538</u>	<u>15,462,445</u>	<u>17,482,965</u>	<u>18,313,389</u>	<u>17,236,205</u>
Total business - type activities net position	<u>60,194,750</u>	<u>65,070,708</u>	<u>70,060,448</u>	<u>74,133,272</u>	<u>73,440,811</u>	<u>77,442,922</u>	<u>77,852,736</u>	<u>80,928,282</u>	<u>83,008,879</u>	<u>85,364,615</u>
Primary government										
Net Investment in Capital Assets	75,591,480	69,160,593	80,239,382	77,711,820	75,711,188	80,747,882	81,565,478	88,815,570	94,804,086	100,622,802
Restricted	9,006,858	8,421,791	8,910,203	9,594,133	7,971,503	9,304,474	6,172,117	6,107,402	6,648,978	12,274,999
Unrestricted	<u>(21,139,560)</u>	<u>(22,266,272)</u>	<u>(20,712,849)</u>	<u>(4,681,534)</u>	<u>7,317,548</u>	<u>(3,788,031)</u>	<u>(8,314,614)</u>	<u>(4,774,698)</u>	<u>(8,440,861)</u>	<u>(16,575,239)</u>
Total primary government activities net position	<u>\$ 63,458,778</u>	<u>\$ 55,316,112</u>	<u>\$ 68,436,736</u>	<u>\$ 82,624,419</u>	<u>\$ 91,000,239</u>	<u>\$ 86,264,325</u>	<u>\$ 79,422,981</u>	<u>\$ 90,148,274</u>	<u>\$ 93,012,203</u>	<u>\$ 96,322,562</u>

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 2

Changes in Net Position  
Last Ten Years  
(accrual basis of accounting)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Expenses</b>									
Governmental Activities:									
General government	\$ 5,900,215	\$ 6,645,606	\$ 8,363,679	\$ 11,591,907	\$ 8,496,511	\$ 14,193,579	\$ 14,514,780	\$ 7,932,586	\$ 13,916,289
Public safety	34,579,587	36,982,770	37,329,606	35,746,269	44,659,264	50,050,802	51,117,977	54,309,067	52,607,308
Community development	6,720,749	8,911,593	8,240,887	8,687,031	9,508,856	12,548,838	12,544,800	13,845,854	9,773,209
Public works	11,008,262	10,605,482	11,113,362	11,363,182	11,262,288	11,874,900	9,353,946	12,617,569	11,920,300
Health and sanitation	3,762,726	3,461,871	3,375,154	4,450,785	3,283,888	3,045,226	2,285,122	2,547,999	3,373,570
Parks and recreation	2,445,365	2,376,253	3,071,350	3,392,513	3,527,522	3,603,363	2,583,320	2,014,847	3,038,880
Other	4,250,164	9,498,938	339,076	1,141,913	-	-	-	-	-
Interest on long-term debt	5,173,199	3,115,775	3,940,612	3,996,208	4,373,290	3,577,271	3,952,622	5,071,431	5,481,742
Total governmental activities expenses	73,840,267	81,598,288	75,773,726	80,369,808	85,111,619	98,893,979	96,352,567	98,339,353	100,111,298
Business - type activities:									
Water fund	10,203,261	9,959,147	10,726,077	10,268,694	10,846,997	10,663,179	10,932,251	11,410,407	11,308,214
Sewer fund	10,179,095	11,422,394	11,898,997	12,376,807	13,047,950	12,607,533	13,639,529	13,034,825	13,533,543
Solid waste fund	9,213,705	9,316,884	9,417,855	9,530,362	11,565,750	12,528,680	12,578,028	12,584,872	13,170,266
Municipal golf course	611,666	925,727	851,582	735,697	1,057,970	1,078,094	1,076,235	1,027,292	1,152,872
Total business - type activities expenses	30,207,727	31,624,152	32,894,511	32,911,560	36,518,667	36,877,486	38,226,043	38,057,396	39,164,895
Total primary government expenses	\$ 104,047,994	\$ 113,222,440	\$ 108,668,237	\$ 113,281,368	\$ 121,630,286	\$ 135,771,465	\$ 134,578,610	\$ 136,396,749	\$ 139,276,193
<b>Program Revenues</b>									
Governmental activities:									
Charges for services:									
General government	\$ 907,740	\$ 1,031,734	\$ 1,097,664	\$ 1,169,888	\$ 3,100,711	\$ 5,664,480	\$ 5,849,055	\$ 2,209,673	\$ 4,680,342
Public safety	4,495,190	4,582,892	4,710,383	5,792,822	6,678,609	6,602,040	7,043,765	7,202,889	3,792,692
Community development	1,234,606	1,505,949	1,575,685	1,560,786	1,607,840	1,949,934	1,782,643	3,174,152	3,249,126
Public works	407,523	623,799	454,628	941,958	2,668,591	1,418,930	2,463,882	183,134	192,673
Health and sanitation	181,465	155,087	151,448	181,677	224,221	177,924	170,013	180,922	192,961
Parks and recreation	395,833	378,200	335,559	327,358	366,715	332,878	358,414	411,409	424,910
Other	-	-	2,866,112	5,187,455	-	-	-	-	-
Operating grants and contributions	9,492,085	7,703,267	11,592,544	12,512,597	10,645,301	17,197,783	11,452,802	14,153,060	13,696,509
Capital grants and contributions	328,928	1,779,448	2,845,673	2,232,405	1,400,090	3,180,479	2,129,468	4,350,695	5,335,856
Total governmental activities program revenues	17,443,370	17,760,376	25,629,696	29,906,946	26,692,078	36,524,448	31,250,042	31,865,934	31,565,069
Business - type activities:									
Changes for services:									
Water fund	14,831,266	14,169,008	14,380,000	14,639,594	14,167,850	14,122,453	13,194,621	15,220,117	14,878,781
Sewer fund	15,142,783	14,365,042	17,052,181	16,104,610	14,752,734	15,035,859	15,089,091	14,480,766	15,595,169
Solid waste fund	8,595,850	8,701,576	8,884,440	8,830,880	11,538,022	13,589,330	13,292,638	13,467,648	13,692,905
Municipal golf course	839,995	945,130	950,416	1,067,497	1,249,958	1,278,723	1,296,971	1,316,067	1,321,422
Operating grants and contributions	1,600,757	1,571,561	1,025,750	808,377	948,666	823,762	397,701	1,280,326	828,291
Capital grants and contributions	-	-	152,000	-	-	-	-	-	-
Total business-type activities program revenues	41,010,651	39,752,317	42,444,787	41,450,958	42,657,230	44,850,127	43,271,022	45,764,924	46,316,568
Total primary government program revenues	\$ 58,454,021	\$ 57,512,693	\$ 68,074,483	\$ 71,357,904	\$ 69,349,308	\$ 81,374,575	\$ 74,521,064	\$ 77,630,858	\$ 77,881,637

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 2

Changes in Net Position  
Last Ten Years  
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net (expense)/revenue:										
Governmental activities	\$ (56,396,897)	\$ (63,837,912)	\$ (50,144,030)	\$ (50,462,862)	\$ (58,419,541)	\$ (62,369,531)	\$ (65,102,525)	\$ (66,473,419)	\$ (68,546,229)	\$ (70,718,038)
Business - type activities	10,802,924	8,128,165	9,550,276	8,539,398	6,138,563	7,972,641	5,044,979	7,707,528	7,151,673	6,750,466
Total primary government net expense	<u>\$ (45,593,973)</u>	<u>\$ (55,709,747)</u>	<u>\$ (40,593,754)</u>	<u>\$ (41,923,464)</u>	<u>\$ (52,280,978)</u>	<u>\$ (54,396,890)</u>	<u>\$ (60,057,546)</u>	<u>\$ (58,765,891)</u>	<u>\$ (61,394,556)</u>	<u>\$ (63,967,572)</u>
<b>General Revenue and Other Changes in Net Position</b>										
Governmental activities:										
Taxes										
Property taxes and other taxes	\$ 40,167,520	\$ 40,058,771	\$ 46,918,139	\$ 48,512,216	\$ 52,579,329	\$ 47,186,003	\$ 47,948,307	\$ 45,476,784	\$ 51,955,525	\$ 57,041,497
Grants and charges not restricted to specific purposes	6,939,484	6,833,526	6,065,052	6,146,246	6,028,421	1,313,230	5,048,294	14,121,087	12,298,352	10,216,783
Investment earnings	403,808	499,128	596,402	973,003	1,490,757	762,789	223,172	212,979	4,608	19,651
Transfers	3,461,374	3,427,863	4,671,851	4,946,256	7,389,315	4,369,484	4,631,594	4,813,116	5,071,076	4,394,730
Total governmental activities	<u>50,972,186</u>	<u>50,819,288</u>	<u>58,251,444</u>	<u>60,577,721</u>	<u>67,487,822</u>	<u>53,631,506</u>	<u>57,851,367</u>	<u>64,623,966</u>	<u>69,329,561</u>	<u>71,672,661</u>
Business - type activities:										
Investment earnings	277,106	175,656	111,315	479,682	558,291	398,954	(3,571)	128,545	-	-
Transfers	(3,461,374)	(3,427,863)	(4,671,851)	(4,946,256)	(7,389,315)	(4,369,484)	(4,631,594)	(4,813,116)	(5,071,076)	(4,394,730)
Total business - type activities	<u>(3,184,268)</u>	<u>(3,252,207)</u>	<u>(4,560,536)</u>	<u>(4,466,574)</u>	<u>(6,831,024)</u>	<u>(3,970,530)</u>	<u>(4,635,165)</u>	<u>(4,684,571)</u>	<u>(5,071,076)</u>	<u>(4,394,730)</u>
Total primary government	<u>\$ 47,787,918</u>	<u>\$ 47,567,081</u>	<u>\$ 53,690,908</u>	<u>\$ 56,111,147</u>	<u>\$ 60,656,798</u>	<u>\$ 49,660,976</u>	<u>\$ 53,216,202</u>	<u>\$ 59,939,395</u>	<u>\$ 64,258,485</u>	<u>\$ 67,277,931</u>
<b>Change in Net Position</b>										
Governmental activities	\$ (5,424,711)	\$ (13,018,624)	\$ 8,107,414	\$ 10,114,859	\$ 9,068,281	\$ (8,738,025)	\$ (7,251,158)	\$ (1,849,453)	\$ 783,332	\$ 954,623
Business - type activities	7,618,656	4,875,958	4,989,740	4,072,824	(692,461)	4,002,111	409,814	3,022,957	2,080,597	2,355,736
Total primary government	<u>\$ 2,193,945</u>	<u>\$ (8,142,666)</u>	<u>\$ 13,097,154</u>	<u>\$ 14,187,683</u>	<u>\$ 8,375,820</u>	<u>\$ (4,735,914)</u>	<u>\$ (6,841,344)</u>	<u>\$ 1,173,504</u>	<u>\$ 2,863,929</u>	<u>\$ 3,310,359</u>

**CITY OF ALLENTOWN, PENNSYLVANIA**

TABLE 3

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

<u>Year</u>	<u>Total Taxes</u>	<u>General Property Tax</u>	<u>Earned Income Tax</u>	<u>Business Privilege Tax</u>	<u>Other Local Taxes</u>
2003	\$ 40,167,520	\$ 24,343,349	\$ 6,277,135	\$ 6,207,494	\$ 3,339,542
2004	39,413,259	24,310,225	6,620,027	6,052,939	2,430,068
2005	46,918,139	29,437,515	7,091,890	5,987,283	4,401,451
2006	48,512,216	29,777,503	7,173,393	6,376,629	5,184,691
2007	52,579,329	29,401,764	8,244,860	6,487,096	8,445,609
2008	47,186,003	29,593,673	7,554,503	6,311,326	3,726,501
2009	47,948,307	29,761,519	8,555,867	6,512,894	3,118,027
2010	45,476,784	29,591,030	7,506,990	6,063,934	2,314,830
2011	51,955,525	29,310,491	12,744,483	6,795,191	3,105,360
2012	57,041,497	29,823,087	17,731,754	6,636,744	2,849,912

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 4

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Reserved	-	-	-	-	\$ 1,571,640	\$ 840,183	\$ 810,719	\$ 1,428,755	-	-
Unreserved	\$ (1,351,217)	\$ (3,312,208)	\$ (2,711,620)	\$ 9,128,441	12,565,940	7,365,006	3,476,985	1,687,909	-	-
Restricted	-	-	-	-	-	-	-	-	\$ 147,000	\$ 704,228
Assigned	-	-	-	-	-	-	-	-	1,771,079	-
Unassigned	-	-	-	-	-	-	-	-	2,467	(1,445,400)
Total general fund	<u>(1,351,217)</u>	<u>(3,312,208)</u>	<u>(2,711,620)</u>	<u>9,128,441</u>	<u>14,137,580</u>	<u>8,205,189</u>	<u>4,287,704</u>	<u>3,116,664</u>	<u>1,920,546</u>	<u>(741,172)</u>
All other governmental funds										
Reserved	18,674,685	15,071,930	12,275,288	11,014,501	13,176,308	10,743,716	10,532,748	7,243,969	-	-
Unreserved, reported in:										
Special revenue funds	-	-	-	-	(469,193)	(1,061,877)	(629,676)	(95,108)	-	-
Capital projects funds	-	-	-	-	-	-	-	404,985	-	-
Restricted	-	-	-	-	-	-	-	-	14,228,537	10,880,822
Unassigned	-	-	-	-	-	-	-	-	(96,134)	(29,306)
Total all other governmental funds	<u>18,674,685</u>	<u>15,071,930</u>	<u>12,275,288</u>	<u>11,014,501</u>	<u>12,707,115</u>	<u>9,681,839</u>	<u>9,903,072</u>	<u>7,553,846</u>	<u>14,132,403</u>	<u>10,851,516</u>
TOTAL	<u>\$ 17,323,468</u>	<u>\$ 11,759,722</u>	<u>\$ 9,563,668</u>	<u>\$ 20,142,942</u>	<u>\$ 26,844,695</u>	<u>\$ 17,887,028</u>	<u>\$ 14,190,776</u>	<u>\$ 10,670,510</u>	<u>\$ 16,052,949</u>	<u>\$ 10,110,344</u>

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 5

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Revenues</b>										
Taxes	\$ 38,926,651	\$ 39,413,259	\$ 45,635,035	\$ 47,342,430	\$ 51,368,491	\$ 47,039,202	\$ 47,630,562	\$ 45,438,333	\$ 52,770,021	\$ 55,787,638
Licenses and permits	2,805,947	3,226,492	3,062,847	3,248,191	3,477,297	3,459,268	3,571,616	4,874,549	5,030,946	5,250,576
Charges for services	4,442,950	5,674,904	4,897,309	4,612,567	6,613,544	5,864,796	7,155,768	4,853,162	4,824,140	4,898,943
Fines and forfeits	735,416	701,001	555,898	578,363	580,737	592,504	461,834	500,334	518,350	634,724
Investment earnings	403,808	573,184	497,787	961,195	1,471,916	758,833	223,172	212,979	4,608	19,686
Intergovernmental revenues	15,093,944	14,946,143	18,944,800	19,846,232	17,152,512	24,407,606	20,897,082	30,437,462	28,695,423	26,927,447
Other	2,398,988	2,205,131	2,091,724	4,131,305	4,177,786	3,664,260	4,374,132	5,437,568	4,906,361	3,945,339
<b>Total revenues</b>	<b>64,807,704</b>	<b>66,740,114</b>	<b>75,685,400</b>	<b>80,720,283</b>	<b>84,842,283</b>	<b>85,786,469</b>	<b>84,314,166</b>	<b>91,754,387</b>	<b>96,749,849</b>	<b>97,464,353</b>
<b>Expenditures</b>										
General government	5,654,308	6,025,189	8,350,112	11,112,672	7,806,908	7,962,093	7,656,616	7,507,262	13,765,436	14,417,230
Public safety	32,869,199	35,623,754	36,144,138	34,632,057	43,639,004	47,424,025	49,916,239	50,100,384	50,839,312	53,491,745
Community development	6,638,437	8,816,554	8,159,802	8,614,385	9,442,326	12,482,112	12,605,261	14,171,165	9,731,882	7,835,133
Public works	8,879,470	8,432,129	8,952,519	9,267,279	9,339,687	9,985,082	9,747,558	9,740,759	9,631,143	9,658,216
Health and sanitation	3,492,039	3,401,766	3,322,865	4,402,484	3,240,066	3,005,201	2,648,017	2,738,801	2,809,068	2,673,529
Parks and recreation	1,877,648	1,497,280	2,323,552	2,734,768	2,925,564	3,107,688	2,851,795	2,503,318	2,467,866	2,467,730
Debt service:										
Principal	5,955,000	4,300,000	4,630,000	5,134,432	3,618,900	2,633,800	2,575,600	3,131,400	6,514,100	3,395,750
Interest	4,456,400	2,553,329	3,971,511	3,894,144	4,395,128	3,790,899	3,960,851	3,942,027	4,423,008	4,180,843
Payment of loan issuance costs	170,385	932,830	-	251,525	4,595,871	261,309	49,786	-	-	-
Capital outlay	6,534,655	9,031,443	6,765,457	7,245,177	1,379,020	10,351,660	5,988,589	10,009,124	9,912,486	10,610,482
<b>Total expenditures</b>	<b>76,527,541</b>	<b>80,614,274</b>	<b>82,619,956</b>	<b>87,288,923</b>	<b>90,382,474</b>	<b>101,003,869</b>	<b>98,000,312</b>	<b>103,844,240</b>	<b>110,094,301</b>	<b>108,730,658</b>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,719,837)</u>	<u>(13,874,160)</u>	<u>(6,934,556)</u>	<u>(6,568,640)</u>	<u>(5,540,191)</u>	<u>(15,217,400)</u>	<u>(13,686,146)</u>	<u>(12,089,853)</u>	<u>(13,344,452)</u>	<u>(11,266,305)</u>
Other Financing Sources (uses):										
Issuance of long term debt	18,911,061	64,725,837	-	12,053,400	22,763,981	6,665,000	5,310,000	258,976	13,690,000	5,910,000
Payment to refunded bonds escrow agent	(8,911,809)	(60,293,007)	-	-	(17,850,000)	(6,410,000)	-	-	-	(5,828,246)
Bond premium	-	-	-	-	-	6,309	-	-	38,630	-
Bond discount	-	-	-	-	(379,897)	-	-	-	(126,066)	(16,111)
Capital lease obligations	559,778	406,540	-	105,077	273,220	1,582,940	-	-	-	-
Transfers in	16,053,898	9,979,882	12,726,232	14,405,814	18,766,342	12,046,134	12,408,683	12,749,243	13,793,454	13,651,068
Transfers out	(12,549,343)	(6,508,838)	(8,011,200)	(9,416,378)	(11,331,702)	(7,630,650)	(7,728,789)	(7,885,411)	(8,669,127)	(8,393,011)
<b>Total other financing sources and uses</b>	<b>14,063,585</b>	<b>8,310,414</b>	<b>4,715,032</b>	<b>17,147,913</b>	<b>12,241,944</b>	<b>6,259,733</b>	<b>9,989,894</b>	<b>5,122,808</b>	<b>18,726,891</b>	<b>5,323,700</b>
<b>Net change in fund balances</b>	<b>\$ 2,343,748</b>	<b>\$ (5,563,746)</b>	<b>\$ (2,219,524)</b>	<b>\$ 10,579,273</b>	<b>\$ 6,701,753</b>	<b>\$ (8,957,667)</b>	<b>\$ (3,696,252)</b>	<b>\$ (6,967,045)</b>	<b>\$ 5,382,439</b>	<b>\$ (5,942,605)</b>
Debt service as a percentage of noncapital expenditures	14.9%	9.6%	11.3%	11.3%	9.0%	7.1%	7.1%	7.5%	10.9%	7.7%

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 6

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

Fiscal Year Ended <u>December 31</u>	<u>Real Property</u>					<u>Total Taxable Assessed Value</u>	<u>Tax Exempt Real Property</u>	<u>Total Direct Tax Rate(2)</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value as a Percentage of Actual Value (1)</u>
	<u>Residential Property</u>	<u>Commercial Property</u>	<u>Multi-Family Property</u>	<u>Combination Property</u>	<u>Vacant Lots</u>					
2003	\$ 1,010,110,220	\$ 379,636,300	\$ 223,499,950	\$ 52,664,950	\$ 15,259,550	\$ 1,681,170,970	\$ 420,408,200	\$ 0.015	\$ 3,362,341,940	50%
2004	1,021,530,450	374,465,250	223,492,850	53,293,100	14,601,500	1,687,383,150	424,079,700	0.015	3,374,766,300	50%
2005	1,032,293,650	370,311,000	224,461,600	53,539,900	14,705,450	1,695,311,600	428,009,300	0.018	3,390,623,200	50%
2006	1,037,145,800	361,532,150	227,440,000	53,261,600	22,297,350	1,701,676,900	426,922,950	0.018	3,403,353,800	50%
2007	1,043,076,850	359,764,550	229,505,550	53,559,500	21,778,950	1,707,685,400	433,570,800	0.018	3,415,370,800	50%
2008	1,042,615,000	356,065,600	229,692,650	53,612,150	21,891,450	1,703,876,850	427,335,700	0.018	3,407,753,700	50%
2009	1,049,378,500	359,395,350	231,912,550	53,227,200	15,995,250	1,709,908,850	466,210,300	0.018	3,419,817,700	50%
2010	1,050,521,900	352,885,300	229,726,000	52,937,100	16,665,650	1,702,735,950	471,422,500	0.018	3,405,471,900	50%
2011	1,053,338,550	351,299,450	230,313,050	53,052,000	15,463,150	1,703,466,200	484,513,100	0.018	3,406,932,400	50%
2012	1,051,702,800	351,225,450	230,099,250	53,044,800	16,477,600	1,702,549,900	476,375,100	0.018	3,405,099,800	50%

Notes:

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

(1) Calculation does not include tax exempt property.

(2) Total Direct Tax Rate for years 2003 through 2011 were adjusted to reflect the Direct Rates listed on the Property Tax Rates, Direct and Overlapping Governments schedule (Table 7).

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

Fiscal Year	<u>Direct Rates</u>	<u>Overlapping Rates</u>		Total Direct & Overlapping Rates
	<u>Allentown City</u>	<u>School District</u>	<u>County</u>	
	Total City Millage	Total School Millage	Total County Millage	
2003	14.72	37.490	12.39	64.60
2004	14.72	39.490	10.75	64.96
2005	17.52	41.734	10.75	70.00
2006 (1)	17.53	42.942	10.25	70.72
2007 (1)	17.53	42.942	10.25	70.72
2008 (1)	17.53	42.942	10.25	70.72
2009 (1)	17.53	42.942	10.25	70.72
2010 (1)	17.53	45.592	10.25	73.37
2011 (1)	17.53	45.592	11.90	75.02
2012 (1)	17.53	49.332	11.90	78.76

**Notes:**

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

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

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

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

**Principal Property Taxpayers  
Current Year and Nine Years Ago**

<u>Taxpayer</u>	<u>2012</u>			<u>2003</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total taxable Assessed Valuation</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total taxable Assessed Valuation</u>
Plaza at 835 W Hamilton Street LP	\$21,570,550	1	1.27%			
Home Properties Trexler Park LLC	10,411,550	2	0.61%	\$ 4,773,900	10	0.28%
Congress Associates	6,575,850	3	0.39%	9,574,250	2	0.57%
The Lakes	5,961,050	4	0.35%	5,961,050	6	0.35%
Morris Allentown Associates LP ET	5,535,000	5	0.33%			
Lehigh Valley Hospital Inc.	5,372,750	6	0.32%	6,062,750	5	0.36%
Westmont LP	5,156,050	7	0.30%			
Allentown Commerce Park Corp.	4,900,000	8	0.29%	4,900,000	8	0.29%
230 Riverbend Apartments LLC	4,290,000	9	0.25%			
EPC-Allentown LLC	4,060,850	10	0.24%			
The Morning Call				7,237,200	3	0.43%
Sharma Baldev Raj & Sudesh				4,637,500	9	0.28%
Agere Systems/Lucent Technologies				14,233,450	1	0.85%
Mack Trucks Inc.				6,813,850	4	0.41%
Eastern Retail Holdings				5,753,700	7	0.34%
Allentown Oxford Assoc. Ltd. Partnership				0		0.00%
<b>Total</b>	<b><u>\$ 73,833,650</u></b>		<b><u>4.35%</u></b>	<b><u>\$ 69,947,650</u></b>		<b><u>4.16%</u></b>

Source:  
City of Allentown Property Tax File

**CITY OF ALLENTOWN, PENNSYLVANIA**

TABLE 9

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

<b>Fiscal Year Ended December 31</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>	<b>Total Collections to Date</b>	
		<b>Fiscal Year</b>	<b>Percentage of Levy</b>		<b>Amount</b>	<b>Percentage of Levy</b>
2003	\$24,415,246	\$23,238,105	95.2%	\$914,133	\$24,152,238	98.9%
2004	25,221,033	23,411,082	92.8%	873,110	24,284,192	96.3%
2005	29,804,140	28,226,175	94.7%	1,024,165	29,250,340	98.1%
2006	30,984,146	28,464,063	91.9%	1,000,267	29,464,330	95.1%
2007	31,311,392	27,958,172	89.3%	1,194,837	29,153,009	93.1%
2008	29,796,059	28,339,285	95.1%	1,113,019	29,452,304	98.8%
2009	29,383,171	28,143,621	95.8%	1,078,376	29,221,997	99.5%
2010	29,349,230	28,331,648	96.5%	862,912	29,194,560	99.5%
2011	29,481,538	28,274,829	95.9%	655,923	28,930,752	98.1%
2012	29,700,657	28,426,793	95.7%	-	28,426,793	95.7%

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 10

Ratios of Outstanding Debt By Type  
Last Ten Years

Fiscal Year	Governmental Activities			Business-Type Activities						Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Capital Leases	Revenue Bonds and Note	Water			Sewer					
				General Obligation Bonds	Other	Revenue Bonds	General Obligation Bonds	Capital Leases				
2003	\$ 81,925,000	\$ 1,676,681	\$ 34,565,000	-	\$ 1,800,000	\$ 18,830,000	-	\$ 388,815	\$ 139,185,496	4.20%	\$ 1,305	
2004	89,330,000	1,663,615	32,040,000	-	1,400,000	17,430,000	-	3,298,664	145,162,279	4.30%	1,361	
2005	85,100,000	1,272,836	27,730,000	-	1,000,000	15,555,000	-	2,689,177	133,347,013	3.85%	1,251	
2006	92,518,968	1,024,181	23,570,200	-	500,000	14,000,000	-	2,172,144	133,785,493	3.71%	1,255	
2007	94,314,049	838,471	20,707,600	-	-	12,895,000	-	1,725,575	130,480,695	3.46%	1,224	
2008	91,935,249	1,907,720	18,202,400	-	-	12,235,000	-	1,140,421	125,420,790	3.18%	1,176	
2009	94,669,649	1,446,352	15,832,200	-	-	11,055,000	-	775,574	123,778,775	3.04%	1,161	
2010	94,853,046	1,219,995	13,355,600	-	-	9,825,000	-	237,485	119,491,126	2.63%	1,012	
2011	103,285,937	906,186	6,255,200	\$ 6,005,000	-	7,455,000	\$ 5,185,000	465,098	129,557,421	2.83%	1,098	
2012	102,750,151	654,732	4,471,200	5,190,000	2,140,123	6,240,000	5,075,000	644,817	127,166,023	2.69%	1,077	

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

<b><u>Fiscal Year</u></b>	<b><u>General Obligation Bonds</u></b>	<b>Percentage of Estimated Actual Taxable Value of <u>Property</u></b>	<b><u>Per Capita</u></b>
2003	\$ 81,925,000	2.44%	\$ 768
2004	89,330,000	2.65%	838
2005	85,100,000	2.51%	798
2006	92,518,968	2.72%	868
2007	94,314,049	2.76%	884
2008	91,935,249	2.70%	862
2009	94,669,649	2.77%	888
2010	94,853,046	2.79%	804
2011	114,475,937 (1)	3.36%	970
2012	113,015,151	3.32%	957

(1) Adjusted to reflect Water and Sewer General Obligation Bonds issued in 2011.

**Direct and Overlapping Governmental Activities Debt  
As of December 31, 2012**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Allentown School District	\$ 202,813,304	100.0%	\$ 202,813,304
Lehigh County General Obligation Bonds	167,270,533	19.7%	<u>32,952,295</u>
Subtotal, overlapping debt			235,765,599
City of Allentown Direct Debt (1)			<u>103,404,883</u>
Total direct and overlapping debt			<u><u>\$ 339,170,482</u></u>

## Notes:

- (1) Water and Sewer Leases and General Obligation Bonds related to Water and Sewer, issued in 2011 are not included in the Direct Debt total.
- (2) Overlapping debt is calculated by using Allentown's percentage of Lehigh County's Total Assessments. This percentage is used to determine Allentown's percent of the debt. The debt for Allentown School district is included at 100%.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 13

Legal Debt Margin Information  
Last Ten Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$ 171,794,413	\$ 185,516,142	\$ 228,107,156	\$ 237,239,268	\$ 257,334,258	\$ 257,943,550	\$ 258,815,970	\$ 259,225,834	\$ 274,575,453	\$ 290,328,835
Total net debt applicable to limit	<u>52,915,000</u>	<u>53,345,000</u>	<u>49,765,000</u>	<u>57,843,968</u>	<u>62,294,049</u>	<u>58,630,812</u>	<u>63,344,649</u>	<u>63,528,046</u>	<u>72,730,937</u>	<u>73,124,883</u>
Legal debt margin	<u>\$ 118,879,413</u>	<u>\$ 132,171,142</u>	<u>\$ 178,342,156</u>	<u>\$ 179,395,300</u>	<u>\$ 195,040,209</u>	<u>\$ 199,312,738</u>	<u>\$ 195,471,321</u>	<u>\$ 195,697,788</u>	<u>\$ 201,844,516</u>	<u>\$ 217,203,952</u>
Total net debt applicable to the limit as a percentage of debt limit	30.80%	28.75%	21.82%	24.38%	24.21%	22.73%	24.47%	24.51%	26.49%	25.19%

Legal Debt Margin Calculation for Fiscal year 2012

Borrowing base (1)	\$ 82,951,096
Percentage limitation	350%
Net debt limit	290,328,835
Debt applicable to limit:	
General obligation debt (2)	103,404,883
Less: Amount set aside for pension funding liability	<u>(30,280,000)</u>
	<u>73,124,883</u>
	<u>\$ 217,203,952</u>

Notes:

(1) The Commonwealth of Pennsylvania has enacted the "Local Government Unit Debt Act" which limits debt to revenues. Briefly, revenues of the last three years are adjusted for various nonrecurring and excludable items.

The average of the adjusted revenues for the respective years is then the borrowing base. Certain percentages are applied to the borrowing base to determine the debt limitations.

(2) Excludes Water and Sewer General Obligation Bonds issued in 2011 because they are considered self-liquidating.

Pledged-Revenue Coverage  
Last Ten Years

Fiscal Year	Water Revenue Bonds						Sewer Revenue Bonds					
	Water (1) Revenues and Other	Less: (2) Operating Expenses	Net Available Revenue	Debt Service		Coverage	Sewer(1) Revenues and Other	Less: (2) Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal (3)	Interest (3)					Principal (3)	Interest (3)	
2003	\$ 15,086,442	\$ 6,363,846	\$ 8,722,596	\$ 3,932,351	\$ 1,636,014	1.57	\$ 15,344,641	\$ 8,083,358	\$ 7,261,283	\$ 1,630,000	\$ 827,134	2.96
2004	14,360,225	6,224,615	8,135,610	4,191,817	1,509,059	1.43	14,477,827	8,886,293	5,591,534	1,795,000	768,286	2.18
2005	14,476,432	7,083,214	7,393,218	4,310,000	1,343,246	1.31	17,101,556	9,109,843	7,991,713	1,875,000	701,711	3.10
2006	14,821,061	6,902,660	7,918,401	3,996,400	1,193,668	1.53	16,356,010	9,658,406	6,697,604	1,555,000	639,242	3.05
2007	14,244,402	7,742,146	6,502,256	2,892,600	1,041,894	1.65	14,992,046	10,490,975	4,501,071	1,105,000	590,693	2.65
2008	14,218,223	7,672,006	6,546,217	2,670,200	938,837	1.81	15,306,123	10,159,456	5,146,667	915,000	540,883	3.54
2009	13,200,194	8,072,272	5,127,922	2,370,200	820,769	1.61	15,161,966	11,266,120	3,895,846	1,180,000	469,083	2.36
2010	15,301,244	8,703,315	6,597,929	2,476,600	664,774	2.10	14,610,302	10,735,584	3,874,718	1,230,000	391,545	2.39
2011	14,965,965	8,595,684	6,370,281	2,390,400	565,813	2.15	15,774,254	11,026,389	4,747,865	1,270,000	481,779	2.71
2012	15,802,409	8,469,727	7,332,682	2,599,000	391,369	2.45	14,453,386	11,673,868	2,779,518	1,325,000	464,342	1.55

Notes:

(1) Water and Sewer revenue includes investment earnings, but not tap fees.

(2) Total operating expenses exclusive of depreciation and amortization.

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

(3) Includes principal and interest payments on Water and Sewer General Obligation Bonds issued in 2011.

**Demographic and Economic Statistics  
Last Ten Years**

<b>Fiscal Year</b>	<b>Population (1)</b>	<b>Personal Income</b>	<b>Per Capita Personal Income (2)</b>	<b>School Enrollment (3)</b>	<b>Unemployment Rate (4)</b>
2003	106,632	\$ 3,310,923,600	\$ 31,050	16,969	6.3%
2004	106,632	3,374,796,168	31,649	17,521	7.1%
2005	106,632	3,459,888,504	32,447	18,118	6.6%
2006	106,632	3,605,014,656	33,808	18,209	6.4%
2007	106,632	3,771,467,208	35,369	18,318	5.9%
2008	106,632	3,949,329,384	37,037	17,914	8.0%
2009	106,632	4,074,195,456	38,208	17,753	12.0%
2010	118,032	4,544,822,160	38,505	17,753	12.7%
2011	118,032	4,582,946,496	38,828	17,748	11.7%
2012	118,032	4,732,493,040	40,095	17,239	11.5%

Source:

- (1) US Department of Commerce, Bureau of the Census
- (2) US Department of Commerce, Bureau of Economic Analysis
- (3) Allentown School District
- (4) US Department of Labor, Bureau of Labor Statistics

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 16

Principal Employers  
Current Year and Nine Years Ago

<u>Employer</u>	<u>2012</u>			<u>2003</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Allentown School District	2,508	1	4.85%	2,677	2	3.01%
PPL Co.	1,872	2	3.62%	1,841	9	2.07%
Lehigh County & Institutions	1,602	3	3.10%	2,145	5	2.41%
Lehigh Valley Hospital	1,393	4	2.70%			
City of Allentown	1,134	5	2.20%			
Sacred Heart Hospital	1,042	6	2.02%	1,696	10	1.91%
Allied Personnel Services	901	7	1.74%	1,988	7	2.24%
Good Shepherd Rehab	857	8	1.66%			
Muhlenberg College	841	9	1.63%	1,962	8	2.21%
St. Lukes Hospital Allentown	767	10	1.48%			
Contemporary Personnel				3,678	1	4.14%
Mack Trucks Inc.				2,287	3	2.57%
Performance Personnel				2,224	4	2.50%
Agere Systems Inc.				<u>2,052</u>	6	<u>2.31%</u>
	<u>12,917</u>		<u>25.00%</u>	<u>22,550</u>		<u>25.35%</u>

Source:  
Prior to 2009 City of Allentown Earned Income Tax File  
2012 from Berkheimer Associates

Note:  
Starting 2012, a New Pennsylvania Law, Act 32, allows employers to report Local Earned Income Tax to any Tax Collection District. As a result, accurate numbers can no longer be obtained. The 2012 numbers reported above are what was reported to the Local Tax Collection District.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 17

Full-Time Equivalent Employees By Function  
Last Ten Years

Function	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government	99	96	95	101	94	101	94	93	93	95
EMS	32	30	31	32	32	32	29	31	32	41
Public Safety										
Police										
Officers	248	247	235	237	207	211	203	205	209	219
Civilians	26	27	24	22	24	26	32	28	27	25
E-911	25	23	23	27	28	32	32	32	32	33
Fire										
Firefighters and officers	150	149	139	140	140	140	142	143	143	144
Civilians	1	1	1	1	1	1	1	1	1	1
Highways and Streets	68	69	59	58	58	58	53	48	46	46
Sanitation/Recycling	29	30	31	37	37	38	36	32	33	33
Building Maintenance	18	16	16	15	15	15	20	12	12	13
Building Standards & Safety	34	33	35	36	35	40	41	39	38	38
Culture and Recreation	44	43	41	41	37	39	34	25	22	24
Golf	3	4	4	6	6	6	5	5	6	6
Health	49	45	44	44	43	42	36	35	35	35
Water	89	86	86	87	93	93	89	84	85	84
Sewer	100	96	98	91	97	97	96	97	96	93
Total	1,015	995	962	975	947	971	942	910	910	930

Note: The data above are listed in the City's approved budget.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 18

Operating Indicators By Function  
Last Ten Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Police</b>										
Law violations	19,612	18,103	18,336	19,072	17,381	16,794	14,906	14,433	13,794	13,801
Traffic violations (2)	14,397	16,074	11,465	8,744	5,586	5,227	6,788	9,949	10,560	10,182
<b>Fire</b>										
Number of calls answered (3)	6,090	5,889	5,955	6,033	6,346	8,988	12,206	11,383	11,719	9,409
Inspections and investigations (5)	2,754	3,414	2,637	2,284	2,568	1,821	1,823	2,668	2,351	1,149
<b>Highways and Streets</b>										
Street reconstruction (miles)	0.9	0.7	0.0	0.1	0.15	0.29	0.13	0.02	0.00	0.10
Overlays (miles)	n/a	n/a	n/a	n/a	4.4	6.2	5.2	5.4	4.9	3.7
Potholes repaired	19,621	17,079	13,909	11,691	10,734	15,552	12,427	10,488	9,673	4,355
<b>Sanitation</b>										
Refuse collected (tons/year)	41,870	43,300	44,476	42,126	38,746	36,907	33,533	35,401	36,174	37,274
Recyclables collected (tons/year)	2,762	7,595	8,355	6,194	8,398	9,954	9,472	9,043	9,267	11,603
Sweep tickets issued (1)	n/a	n/a	786	3,604	4,957	5,203	6,047	6,891	6,854	7,514
Animal related complaints (4)	1,818	1,582	1,391	1,222	1,510	1,476	1,467	1,193	1,268	1,441
<b>Health</b>										
Home hazard surveys	305	363	360	243	241	319	300	439	311	274
Food service inspections	1,436	1,560	1,377	1,405	1,429	1,456	1,708	1,765	1,306	1,613
Number of home visits	2,695	2,720	2,412	2,228	1,658	906	384	303	428	478
Total lead screenings	718	850	857	870	690	773	849	945	916	788
Persons tested & counseled for HIV infection	2,500	2,500	2,268	2,160	2,324	2,472	2,544	2,656	2,624	2,517
<b>Recreation</b>										
Pavilion permits	173	113	178	206	325	508	389	382	294	297
Swimming pool season passes	231	196	148	152	191	195	116	211	159	253
Swimming pool patrons (non season pass)	18,485	12,732	17,773	13,395	43,623	56,453	65,428	64,932	47,365	36,584
<b>Water</b>										
Water connection permits	20	25	51	25	57	20	16	17	47	8
Water main breaks	25	25	25	9	29	22	18	22	23	13
Average daily consumption (millions of gallons)	15.46	14.85	15.26	14.48	14.75	14.80	14.50	14.75	14.39	16.00
<b>Wastewater</b>										
Average daily sewage treatment (millions of gallons)	35.38	31.25	31.72	31.16	30.80	32.27	30.70	31.64	31.64	30.91

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 18

Operating Indicators By Function  
Last Ten Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Golf										
Number of patrons	38,000	40,000	39,900	42,000	47,040	50,155	50,548	50,562	45,799	48,500
Number of days of service	280	310	320	225	273	305	299	293	285	310
E-911										
Number of calls:										
Police	112,202	116,435	107,219	105,196	107,135	103,600	112,841	112,639	127,315	119,686
EMS	11,867	12,073	12,932	12,929	13,485	13,985	13,512	13,843	14,628	14,528
Fire (3)	6,112	5,913	5,969	6,048	6,353	8,955	12,210	11,393	11,753	9,409
Other	10,071	9,582	9,156	8,952	9,556	8,760	9,259	8,572	9,653	7,901

Source:  
Various city departments.

- Notes:
- (1) Sweep ticket program started in May 2005.
  - (2) Starting in 2007, the Police Department starting using a new system. When a traffic violation is included on an arrest sheet, it is no longer listed as a traffic violation.
  - (3) Starting in August 2008, the Fire Department starting providing EMS assistance.
  - (4) Starting in 2009, Animal Related Complaints was moved from the Health Department to the Sanitation Department.
  - (5) Prior to 2012, Inspections and Investigations included follow up visits.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 19

Capital Asset Statistics By Function  
Last Ten Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety										
Police:										
Stations	1	1	1	1	1	1	1	1	2	2
Police officers	237	220	172	190	187	197	203	199	197	209
Patrol units	89	92	86	83	87	84	84	87	90	108
Fire:										
Stations	6	6	6	6	6	6	6	6	6	6
Fire fighters	146	147	135	140	140	140	141	141	102	120
Sanitation										
Collection trucks	2	3	3	3	3	3	3	3	3	4
Highways and Streets										
Streets (miles)	427.5	427.5	427.5	427.5	427.5	427.5	427.5	427.5	427.5	427.5
Streetlights	7,757	7,762	7,761	7,766	7,829	7,835	7,990	7,995	8097	8097
Traffic signals	n/a	n/a	n/a	1,622	1,622	1,622	1,622	1,622	1622	1622
Recreation										
Parks acreage	2,020	2,020	2,020	2,022	2,022	2,022	2,022	2,022	2022	2022
Parks (1)	32	28	28	29	32	32	32	32	32	32
Swimming pools	5	5	5	5	5	5	5	4	4	4
Playgrounds	10	9	11	11	16	19	19	19	19	19
Water										
Water mains (miles)	300.0	300.0	300.0	300.0	310.0	310.0	310.0	310.0	310.0	310.0
Fire hydrants	n/a	n/a	n/a	1,708	1,819	1,819	1,816	1,818	1820	1817
Maximum daily capacity (millions of gallons)	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30	30	35
Sewer										
Sanitary sewers (miles)	293.0	293.0	293.0	293.0	283.0	283.0	283.0	283	283	283
Storm sewers (miles)	185.0	185.0	185.0	185.0	165.0	165.0	165.0	165.0	165	165
Maximum daily treatment capacity (millions of gallons)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40	40	40
Golf										
Number of courses	1	1	1	1	1	1	1	1	1	1

Source:  
Various city departments.

**CITY OF ALLENTOWN  
FINANCIAL MANAGEMENT POLICIES**

**OPERATING MANAGEMENT**

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

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

### **CAPITAL AND DEBT MANAGEMENT**

- Any capital project financed through the issuance of general obligation bonds should be financed for a period not to exceed the expected life of the project up to a maximum of twenty years.
- The Comprehensive Plan of the City of Allentown should be used to help evaluate the projects in the Capital Improvements Program.
- The Capital Improvements Program should reflect the relationship between the City's planning and budgeting processes, wherein the planning effort defines the City's anticipated capital facility needs and the budgeting effort defines the financial parameters of sound capital expenditure policies to meet those needs.
- Bond sales should be planned and structured in order to maintain or improve the City's bond rating and to obtain interest rates at or below the published bond yield averages for bonds of similar ratings.
- The schedule of capital facility improvements should be developed in such a manner as to level the City's annual debt service payments to the maximum extent possible and to minimize fluctuations in tax rates caused by debt-financed capital improvements.
- The City should use short-term financing such as revenue and bond anticipation notes to provide temporary financing for improvement projects or land acquisition, only when market conditions warrant such action. Short-term debt outstanding at the end of the fiscal year should not exceed five percent (5%) of operating revenues
- Net direct debt of the General Fund should be maintained below \$1,000 per capita.
- Net direct debt per capita for the General Fund should not exceed ten percent (10%) of per capita personal income.

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

### **ACCOUNTING, AUDITING AND FINANCIAL PLANNING**

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

### **COMMUNITY NEEDS AND RESOURCES**

- The City should continue to diversify and stabilize its economic base in order to protect the community against economic downturns and to take advantage of economic upswings.
- The City should continue its joint private/public economic development efforts to "market" Allentown as a desirable place to do business.
- The City should continue to encourage economic development activities that provide growth in the City's tax base and employment opportunities for City residents. In those cases where it is not realistic to locate the activity within Allentown, the City will work with other economic development organizations to find an appropriate location in Lehigh County or the Lehigh Valley.