

CITY OF ALLENTOWN
Pennsylvania

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**



GARRET H. STRATHEARN
DIRECTOR OF FINANCE

For the year ended
December 31, 2010

**CITY OF ALLENTOWN, PENNSYLVANIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010**



MAYOR

Ed Pawlowski

CITY COUNCIL

Michael D'Amore, Ph.D., President
W. Michael Donovan, Vice President
Jeanette Eichenwald
Julio Guridy
Ray O'Connell
Peter G. Schweyer
Michael Schlossberg

CITY CONTROLLER

William J. Hoffman

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 2010 Allentown's downtown embarked on a rebirth that saw the establishment of several excellent new restaurants as well as a 130 acre Neighborhood Improvement Zone which will lead to many new cultural, sports and entertainment attractions anchored in the heart of the City's business and entertainment district.

CITY OF ALLENTOWN, PENNSYLVANIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2010

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	3

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements:

Statement of Net Assets	20
Statement of Activities	22

Fund Financial Statements:

Balance Sheet – Governmental Funds	24
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	26
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	29
Statement of Net Assets – Proprietary Funds	30

CITY OF ALLENTOWN, PENNSYLVANIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2010

TABLE OF CONTENTS

(Continued)

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	34
Statement of Cash Flows – Proprietary Funds	36
Statement of Fiduciary Net Assets – Fiduciary Funds	38
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	39
Notes to Financial Statements	40

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – Budgetary Basis – General Fund	91
Budgetary Comparison Schedule – Budgetary Basis – Liquid Fuels Fund	96
Notes to Budgetary Comparison Schedule	97
Schedules of Funding Progress	98
Schedules Employer’s Contributions	99
Actuarial Information	100

SUPPLEMENTARY INFORMATION

COMBINING STATEMENTS AND SCHEDULES:

Statement of Net Assets – Component Units	101
---	-----

CITY OF ALLENTOWN, PENNSYLVANIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2010

TABLE OF CONTENTS

(Continued)

Statement of Revenue, Expenses and Changes in Net Assets – Component Units	102
Budgetary Comparison Schedule – Budgetary Basis – Capital Projects and Debt Service Funds	104
Combining Schedules of Changes in Assets and Liabilities – Agency Funds	106
STATISTICAL	
Contents	107
Net Assets by Component	108
Changes in Net Assets	109
Governmental Activities Tax Revenues by Source	111
Fund Balances of Governmental Funds	112
Changes in Fund Balances of Governmental Funds	113
Assessed Value and Estimated Actual Value of Taxable Property	114
Property Tax Rates	115
Principal Property Taxpayers	116
Property Tax Levies and Collections	117
Ratios of Outstanding Debt by Type	118
Ratios of General Bonded Debt Outstanding	119
Direct and Overlapping Governmental Activities Debt	120

CITY OF ALLENTOWN, PENNSYLVANIA

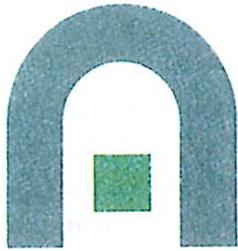
COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2010

TABLE OF CONTENTS

(Continued)

Legal Debt Margin Information	121
Pledged-Revenue Coverage	122
Demographic and Economic Statistics	123
Principal Employers	124
Full-time Equivalent Employees by Function	125
Operating Indicators by Function	126
Capital Asset Statistics by Function	128
APPENDIX	
Financial Management Policies	129



Allentown
City without limits.

Garret H. Strathearn
Director of Finance
610.437.7500
fax 610.437.7563
strathearng@allentowncity.org

October 17, 2011

Honorable Mayor and Members of City Council
Allentown, Pennsylvania

The Comprehensive Annual Financial Report (CAFR) of the City of Allentown, Pennsylvania, for the fiscal year ended December 31, 2010 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 Government Accounting Standards Board (GASB). The financial statements of the reporting entity include those of the City of Allentown, Pennsylvania (City) (the primary government) and its Component Units. The Component Units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The Component Units, in accordance with GAAP, have been included in the financial reporting entity as discretely presented Component Units.

FINANCIAL INFORMATION

Internal Controls: Management of the City is responsible for establishing and maintaining an internal control 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. As a result of the implementation of GASB-34, the format of the CAFR has been expanded to include a Management Discussion and Analysis (MD&A) section that provides an analysis of the City's financial condition for 2010.

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

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

OTHER INFORMATION

Independent Audit: The City's Administrative Code requires that an annual audit of the books of account, financial records, and transactions of the City be performed by independent certified public accountants. The accounting firm of 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: The administration maintained its focus in 2010 on the continued revitalization of the city. Efforts continued to bolster confidence in public safety by implementing strategies to effectively and efficiently utilize the police force and to further reduce crime. Violent crime continues to decrease dramatically since 2006. The City has been awarded several major US Department of Justice grants and is employing technology such as multiple remote cameras sites to assist the Police Department. Throughout 2010 Allentown's Fire Department continued its leadership in emergency management situations and training thus continuing the City's position as a regional pacesetter in the emergency management arena.

In addition to continuing efforts in public safety, Allentown has maintained an aggressive and successful redevelopment effort under the guidance of the Department of Community and Economic Development. The work of the Department, supported by numerous legislative and civic leaders has

resulted in several distinct economic development projects. These are described in detail in the Economic Outlook section of Management's, Discussion and Analysis portion of this report. There you will find that many exciting significant initiatives that will have a lasting and positive material effect on the financial and economic wellbeing of the City will soon be coming to fruition, particularly in the downtown area and the Arts District.

The City General Fund revenues continue to be significantly impacted by the economic times. The administration has put cost containment measures in place to address this decline in revenue.

The City will periodically utilize loans or bonds to finance infrastructure, but does not foresee borrowing for any other nonessential major expenditures.

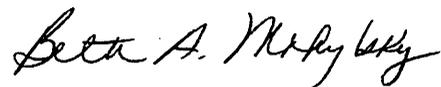
Acknowledgments: The timely preparation of the comprehensive annual financial report was made possible by the dedicated service of the entire staff of the Department of Finance. We would especially like to express our appreciation to the following staff members who assisted and contributed so significantly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

We would also like to thank the Mayor, 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, 2009

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

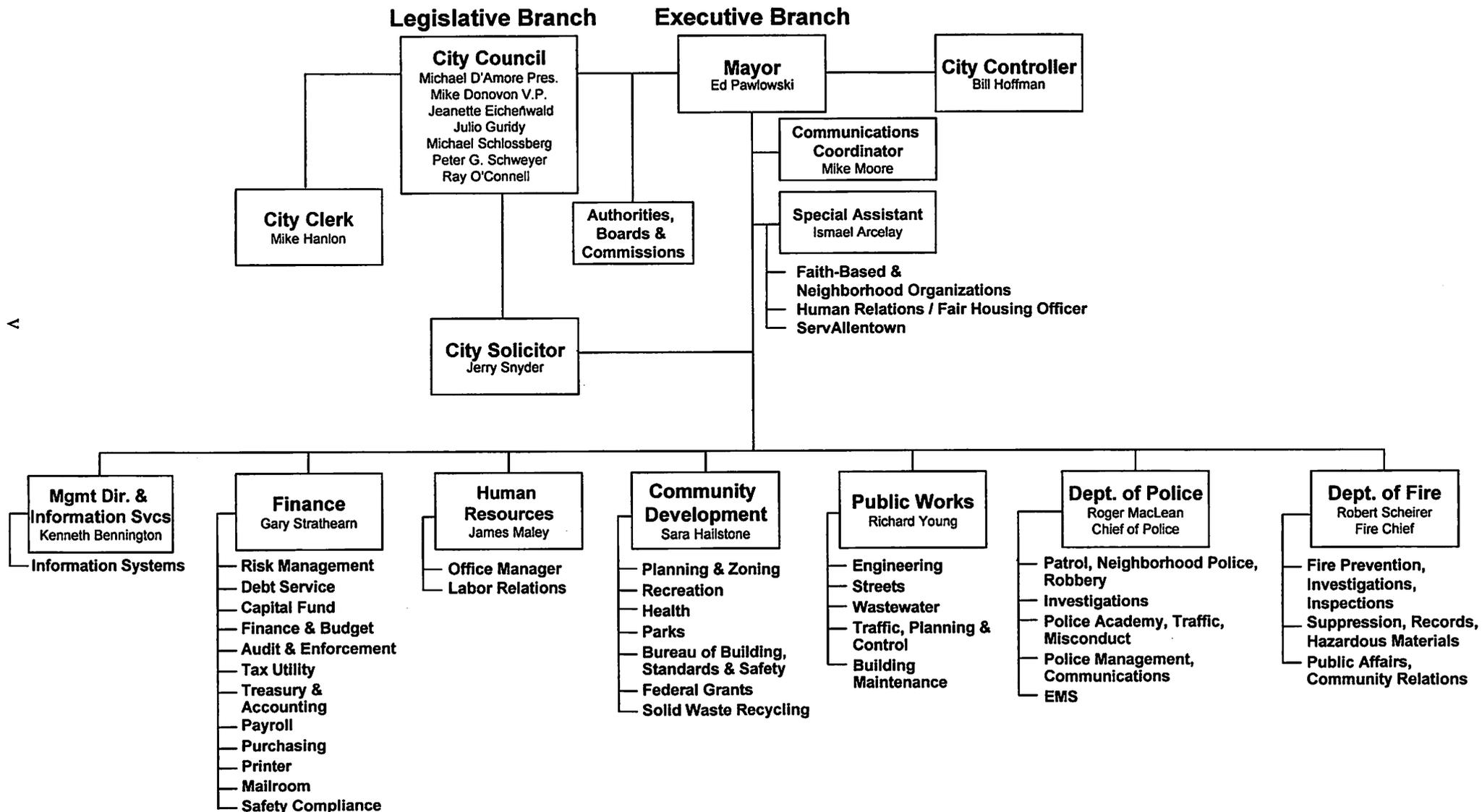


President

Executive Director

City of Allentown 2010

The Voters of Allentown



THIS PAGE INTENTIONALLY LEFT BLANK

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Allentown, Pennsylvania (City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Allentown Redevelopment Authority, Allentown Economic Development Corporation, and the Allentown Parking Authority as of and for the years ended, December 31, 2010, June 30, 2010, and December 31, 2010, respectively, which represent 100% of the assets, net assets, and revenues of the discretely presented component units column. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011, 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, contract, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, and schedules of historical pension and other post-employment benefit information, as listed in the table of contents, 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 regarding 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements and schedules in supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Maheer Duessel

Harrisburg, Pennsylvania
October 17, 2011

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

INTRODUCTION

This Management Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the City of Allentown (the City) for the year ended December 31, 2010. 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, 2010. Additional information is provided in the Transmittal Letter preceding this Management Discussion and Analysis 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 2010, the City's total net assets increased by \$10,725,293. However, \$9.5 million of the increase was attributable to prior period adjustments that are further explained in Note 14 to the financial statements. The actual increase in net assets attributable to the year ended December 31, 2010 was \$1.2 million, or a 1.3% increase from the restated net assets. Net assets of governmental activities decreased \$1,849,453 and net assets of business-type activities increased \$3,022,957. The decrease in the governmental net assets was due to the decline of revenues such as earned income tax and excess sewage capacity sales. The increase in the business-type activities was due to the increase of recycling collections and grant revenue in the solid waste fund, as well as the increase of metered rents in the water and sewer funds.

Property tax rates remained at 17.53 mills in 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of four parts:

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

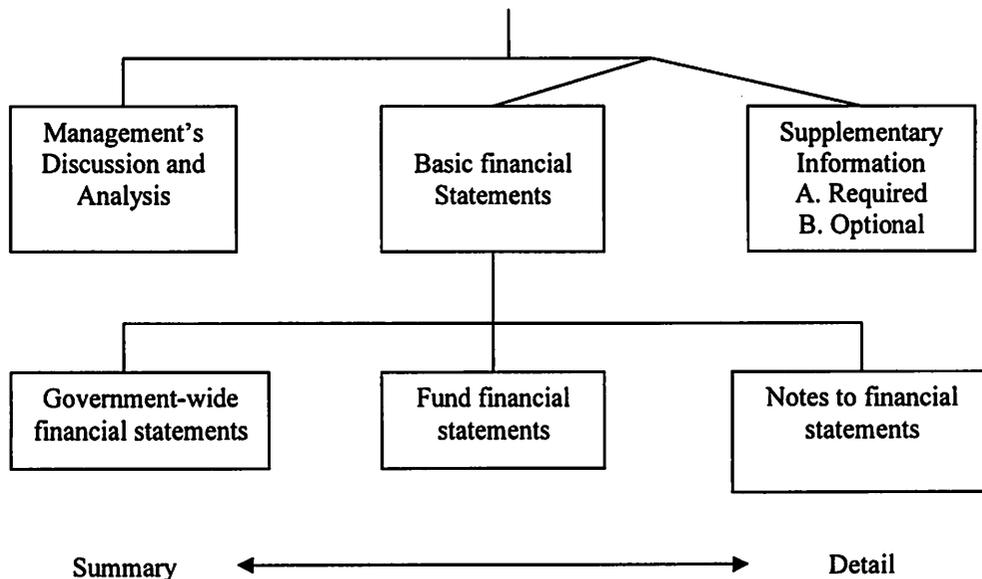
Management's discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand the City government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial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

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

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

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

REQUIRED COMPONENTS OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT



City of Allentown, Pennsylvania
 Management'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

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

City of Allentown, Pennsylvania
Management's Discussion and Analysis

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

Government-wide financial statements

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

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

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

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

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

There are two categories of activities for the primary government.

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

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

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

Fund financial statements

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

The City has three kinds of funds:

- *Governmental funds* include most of the City's basic services and focus on: (1) the flow in and out of cash and other financial assets that can be readily converted to cash, and (2) the balances left at year-end that are available for spending. The eight governmental funds that the City maintains (General, Liquid Fuels, Community Development Block Grant, 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 assets and the statement of activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

The City adopts an annual budget for the general, liquid fuels, debt service and capital project funds, as required by state law. Budgetary comparisons for the general fund and liquid fuels fund are presented as required supplementary information. Budgetary comparisons for the debt service fund and capital projects 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 full accrual 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 assets and a statement of changes in fiduciary net assets. These funds are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Net Assets

The City of Allentown's total assets were \$232.2 million at December 31, 2010. Of this amount, \$178 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 2010 financial statements.

City of Allentown, Pennsylvania
Management's Discussion and Analysis

Table A-3: Condensed statement of net assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 25,555,558	\$ 20,880,595	\$ 19,279,316	\$ 17,965,562	\$ 44,834,874	\$ 38,846,157
Capital assets, net	91,077,830	84,991,286	86,863,402	90,053,066	177,941,232	175,044,352
Other non-current assets	7,769,787	7,504,814	1,637,049	1,834,388	9,406,836	9,339,202
Total assets	\$124,403,175	\$113,376,695	\$107,779,767	\$109,853,016	\$232,182,942	\$223,229,711
Current and other liabilities	\$ 16,255,128	\$ 14,033,302	\$ 6,623,989	\$ 8,408,657	\$ 22,879,117	\$ 22,441,959
Long-term liabilities	98,928,055	97,773,148	20,227,496	23,591,623	119,155,551	121,364,771
Total liabilities	\$115,183,183	\$111,806,450	\$ 26,851,485	\$ 32,000,280	\$142,034,668	\$143,806,730
Net assets:						
Invested in capital assets, net of debt	\$ 25,370,253	\$ 19,175,187	\$ 63,445,317	\$ 62,390,291	\$ 88,815,570	\$ 81,565,478
Restricted net assets	6,107,402	6,172,117			6,107,402	6,172,117
Unrestricted net (deficit) assets	(22,257,663)	(23,777,059)	17,482,965	15,462,445	(4,774,698)	(8,314,614)
Total net (deficit) assets	\$ 9,219,992	\$ 1,570,245	\$ 80,928,282	\$ 77,852,736	\$90,148,274	\$79,422,891

During 2010, net assets increased \$10.7 million or 12% to \$90.1 million. However, \$9.5 million of the increase was attributable to prior period adjustments that are further explained in Note 14 to the financial statements. The actual increase in net assets attributable to the year ended December 31, 2010 was \$1.2 million, or a 1.3% increase from the restated net assets. Of this amount, \$88.8 million represents the net balance of long-term capital assets and capital related long-term debt, while \$6.1 million is restricted for various purposes.

City of Allentown, Pennsylvania
Management's Discussion and Analysis

Table A-4: Changes in net assets

The following statement of activities represents changes in net assets for the year ended December 31, 2010. 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	
	2010	2009	2010	2009	2010	2009
Program revenues:						
Charges for services	\$ 13,362,179	\$ 17,667,772	\$ 44,484,598	\$ 42,873,321	\$ 57,846,777	\$ 60,541,093
Operating grants and contributions	14,153,060	11,452,802	1,280,326	397,701	15,433,386	11,850,503
Capital grants	4,350,695	2,129,468			4,350,695	2,129,468
General revenues:						
Taxes	45,476,784	47,948,307			45,476,784	47,948,307
Investment earnings	212,979	223,172	128,545	(3,571)	341,524	219,601
Unrestricted grants/chgs	14,121,087	5,048,294			14,121,087	5,048,294
Total revenues	91,676,784	84,469,815	45,893,469	43,267,451	137,570,253	127,737,266
Expenses:						
General government	7,932,586	14,514,780			7,932,586	14,514,780
Public safety	54,309,067	51,117,977			54,309,067	51,117,977
Community development	13,845,854	12,544,800			13,845,854	12,544,800
Public works	12,617,569	9,353,946			12,617,569	9,353,946
Health and sanitation	2,547,999	2,285,122			2,547,999	2,285,122
Parks and recreation	2,014,847	2,583,320			2,014,847	2,583,320
Interest long-term debt	5,071,431	3,952,622			5,071,431	3,952,622
Water fund			11,410,407	10,932,251	11,410,407	10,932,251
Sewer fund			13,034,825	13,639,529	13,034,825	13,639,529
Municipal golf course			1,027,292	1,076,235	1,027,292	1,076,235
Solid waste fund			12,584,872	12,578,028	12,584,872	12,578,028
Total expenses	98,339,353	96,352,567	38,057,396	38,226,043	136,396,749	134,578,610
Change in net assets before transfers	(6,662,569)	(11,882,752)	7,836,073	5,041,408	1,173,504	(6,841,384)
Transfers	4,813,116	4,631,594	(4,813,116)	(4,631,594)		
Change in net assets	(1,849,453)	(7,251,158)	3,022,957	409,814	1,173,504	(6,841,344)
Net assets beginning, as originally reported	1,570,245	8,821,403	77,852,736	77,442,922	79,422,981	86,264,325
Prior period adjustments	9,499,200		52,589		9,551,789	
Net assets beginning, as restated	11,069,445	8,821,403	77,905,325	77,442,922	88,974,770	86,264,325
Net assets ending	\$ 9,219,992	\$ 1,570,245	\$ 80,928,282	\$ 77,852,736	\$90,148,274	\$79,422,981

Total government-wide revenues of \$137.6 million came primarily from charges for services of \$57.8 million, representing 42 percent of the total. Taxes at \$45.5 million made up the second largest source at 33 percent, followed by operating and capital grants, and contributions of \$19.8 million, or 14 percent, and other revenue sources made up the remaining 11 percent.

City of Allentown, Pennsylvania
Management's Discussion and Analysis

Total expenses for all programs in 2010 were \$136.4 million. The expenses cover a range of services, with the largest being public safety at \$54.4 million or 39.9 percent. The second largest program area was community development at \$13.9 million or 10.1 percent, followed by the sewer fund at \$13 million or 9.6 percent, followed by public works at \$12.6 million or 9.2 percent, the solid waste fund at \$12.6 or 9.2 percent, the water fund at \$11.4 million or 8.5 percent followed by general government at \$7.9 million or 5.8 percent, followed by interest on outstanding debt at \$5.1 million or 3.7 percent followed by health and sanitation at \$2.5 million or 1.8 percent, parks and recreation at \$2 million or 1.5 percent and golf course at \$1.0 million or 0.7 percent.

General Government charges for services decreased \$4.3 million from 2009 to 2010 primarily due to a reclassification of \$3.7 million state aid pension to grants and contributions not restricted to specific purposes and the unavailability of excess sewage capacity for sale. Operating grants and contributions increased \$2.7 million from 2009 to 2010 and was primarily due to an increase in CDBG grant revenue. The Capital Grants increase of \$2.2 million from 2009 to 2010 was primarily due to an increase in transportation grants for the construction of infrastructure.

General Government expenses decreased \$6.6 million, primarily due to the reclassification and distribution of the transfer of the capital outlays to other programs in 2010. Public safety expenses increased \$3.2 million primarily due to the net loss of the risk fund, an increase of compensated absences, and the reclassification and distribution of the transfer of the capital outlays to this program. Community development expenses increased \$1.3 million primarily due to a pass thru grant. Public works expenses increased \$3.3 million, primarily due to the reclassification and distribution of the transfer of the capital outlays to this program in 2010. The interest on long-term debt increased by \$1.1 million due to the accretion of interest on capital appreciation debt.

The business-type charges for services increased \$1.6 million due to the increase of recycling collections in the solid waste fund, an increase in metered rents in the water and sewer funds.

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 2010, real estate and Act 511 taxes brought in \$45.5 million. There were \$14.1 million in grants and contributions not restricted to specific purposes and \$.4 million in investment earnings. Table A-5 depicts the net program expenses for the years ended December 31 2010 and 2009.

City of Allentown, Pennsylvania
 Management's Discussion and Analysis

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

Program:	Total cost of services		Net cost of services	
	2010	2009	2010	2009
General government	\$7,932,586	\$14,514,780	\$5,649,436	\$8,541,322
Public safety	54,309,067	51,117,977	45,783,648	42,596,012
Community development	13,845,854	12,544,800	3,294,548	5,869,756
Public works	12,617,569	9,353,946	7,266,203	4,020,114
Health and sanitation	2,547,999	2,285,122	185,236	130,798
Parks and recreation	2,014,847	2,583,320	(777,083)	(8,099)
Interest on long-term debt	5,071,431	3,952,622	5,071,431	3,952,622
Water fund	11,410,407	10,932,251	(3,868,409)	(2,314,487)
Sewer fund	13,034,825	13,639,529	(1,548,978)	(1,546,436)
Municipal golf course	1,027,292	1,076,235	(291,604)	(224,210)
Solid waste fund	12,584,872	12,578,028	(1,998,537)	(959,846)
Total expenses	\$136,396,749	\$134,578,610	\$ 58,765,891	\$ 60,057,546

The City relied on real estate tax, Act 511 taxes and other general revenues to fund 43.1 percent of its governmental and business-type activities in 2010.

Property taxes and other general revenues covered 71.2 percent of general government spending with the remainder coming from grants and fees for specific services. Nearly 84.3 percent of public safety spending came from the property tax and other general revenues with the remainder coming from grants, fines, and court costs. Property taxes covered 23.8 percent of community development costs, with the remainder coming from fees, charges for service, and the balance from Community Development Block Grant (CDBG) funding.

Public works spending was partially funded through Commonwealth fuel tax revenues, with 57.6 percent coming from local property taxes and other general revenues. Health and sanitation received all but 7.3 percent of its revenue from program revenues, 85.6 percent of which was in the form of grants. Parks and recreation expenses were covered 100 percent by program 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, 2010, net of accumulated depreciation, was \$178 million. Capital assets consist primarily of land, buildings, equipment, and infrastructure. Table A-6 is a summary of capital assets at December 31, 2010 and 2009.

City of Allentown, Pennsylvania
Management's Discussion and Analysis

Table A-6: Capital assets at December 31, 2010 and 2009

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land and land improvements	\$ 9,099,645	\$ 9,099,645	\$ 3,759,049	\$ 3,759,049	\$ 12,858,694	\$ 12,858,694
Buildings and improvements	34,541,287	32,230,119	33,929,886	35,680,942	68,471,173	67,910,861
Vehicles, machinery and equipment	13,536,156	8,898,751	11,685,925	12,648,681	25,222,081	21,547,432
Distribution and collection systems			37,488,542	37,964,394	37,488,542	37,964,394
Infrastructure	33,900,742	34,762,771			33,900,742	34,762,771
Total	\$ 91,077,830	\$ 84,991,286	\$ 86,863,402	\$ 90,053,066	\$177,941,232	\$175,044,152

Detailed information about the City's capital assets can be found in Note 5, Notes to Financial Statements.

Debt Administration

Long-term debt:

At December 31, 2010, the City had \$120.5 million of debt outstanding, including bonds, notes, and capital leases. This was a decrease of \$4.4 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	
	2010	2009	2010	2009	2010	2009
Capital lease	\$ 1,219,995	\$ 1,446,353	\$ 237,485	\$ 775,575	\$ 1,457,480	\$ 2,221,928
Bonds and notes	64,487,582	64,369,746	23,180,600	26,887,200	87,668,182	91,256,946
Pension obligation bonds	31,325,000	31,325,000			31,325,000	31,325,000
Total	\$97,032,577	\$97,141,099	\$23,418,085	\$27,662,775	\$120,450,662	\$124,803,874

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, 2010 was approximately \$185.1 million, and the total debt outstanding was \$94.8 million, which is below the legal debt limit. The City's net non-electoral and lease rental debt limit at December 31, 2010 was approximately \$259.2 million and the total debt outstanding was \$63.5 million. For computation purposes, the \$94.8 million has been reduced by \$31.3 million, which is the outstanding balance of the 2004 GO bond issue used to finance the City's pension funding liability as allowed by statute.

City of Allentown, Pennsylvania
 Management's Discussion and Analysis

Detailed information about the City's Long-term Debt can be found in Note 9, Notes to Financial Statements.

Bond rating

The City is rated A1 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, reserved/undesignated fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year. Governmental fund accounting was not affected by the adoption of GASB No. 34. Therefore, a schedule is presented to reconcile the fund statements to the government-wide statements.

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

Governmental fund revenues

Governmental fund revenues by source for the years ended December 31, 2010 and December 31, 2009 were as follows. Table A-8 also presents changes from 2009 to 2010.

Table A-8: Revenues by source, governmental funds

	2010	2009	Changes from 2009 to 2010	Percent change
Revenues:				
Taxes	\$45,438,333	\$47,630,562	(\$2,192,229)	(4.6)
Licenses and permits	4,874,549	3,571,616	1,302,933	36.5
Charges for services	4,853,162	7,155,768	(2,302,606)	(32.2)
Fines and forfeits	500,334	461,834	38,500	8.3
Investment earnings	212,979	223,172	(10,193)	(4.6)
Intergovernmental revenues	30,437,462	20,897,082	9,540,380	45.7
Other	5,437,568	4,374,132	1,063,436	24.3
Total revenues	\$91,754,387	\$84,314,166	\$7,440,221	8.8

Governmental fund revenues totaled \$91.8 million for the year ended December 31, 2010. This is an increase of \$7.4 million from 2009, primarily due to an increase in intergovernmental

City of Allentown, Pennsylvania
Management's Discussion and Analysis

revenues. The change from 2009 to 2010 included an increase of Casino fees of \$1.4 million, an increase of \$2.4 million in grant funding, plus an increase of \$3.6 million in federal aid for capital projects.

Governmental fund expenditures

Governmental fund expenditures by function for the years ended December 31, 2010 and December 31, 2009 were as follows. Table A-9 also presents changes from 2009 to 2010.

Table A-9: Expenditures by function, governmental funds

	2010	2009	Changes from 2009 to 2010	Percent change
Expenses:				
General government	\$ 7,507,262	\$ 7,656,616	(\$ 149,354)	(2.0)
Public safety	50,100,384	49,916,239	184,145	.37
Community development	14,171,165	12,605,261	1,565,904	12.4
Public works	9,740,759	9,747,558	(6,799)	(.07)
Health and sanitation	2,738,801	2,648,017	90,784	(3.4)
Parks and recreation	2,503,318	2,851,795	(348,477)	(12.2)
Debt service:				
Principal	3,131,400	2,575,600	555,800	21.6
Interest	3,942,027	3,960,851	(18,824)	.5
Capital outlay	10,009,124	5,988,589	4,020,535	67.1
Payment of bond/loan issue cost	-	49,786	(49,786)	(1.0)
Total expenses	\$ 103,844,240	\$ 98,000,312	\$ 5,843,928	(6.0)

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, liquid fuels fund, the CDBG (community development block grant) fund, revolving loan fund, the debt service fund, the capital projects fund, the trexler fund, and the E-911 fund, all of which are considered to be major funds.

Governmental fund expenditures totaled \$103.8 million for the year ended December 31, 2010, an increase of 6 percent from 2009.

The \$4.0 million increase in capital outlay reflects a continuing emphasis on the City's commitment to enhance its infrastructure. The \$1.6 million increase related to community development related primarily to pass-through grants.

Governmental fund balances

Table A-10 reflects ending balances for governmental funds and net assets for proprietary funds at December 31, 2010 and 2009.

City of Allentown, Pennsylvania
 Management's Discussion and Analysis

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

	2010		2009	
	Governmental funds	Enterprise funds	Governmental funds	Enterprise funds
General	\$ 3,116,664		\$ 6,814,483	
Liquid Fuels Fund	933,500		1,034,480	
Community Development				
Block Grant	4,712,822		5,137,637	
Trexler	(95,108)		(565,045)	
Capital Projects	1,541,552		5,033,883	
E-911	61,013		182,117	
Revolving Loan	400,067		-	
Water Fund		\$ 46,683,055		\$ 44,819,950
Sewer fund		23,329,377		23,584,760
Municipal golf course		2,984,090		3,075,527
Solid waste fund		7,931,760		6,425,088
Total	\$10,670,510	\$80,928,282	\$17,637,555	\$77,905,325

The City's governmental funds reported a combined fund balance of \$10.7 million at December 31, 2010. Of the total, \$4.7 million is reserved for CDBG projects, \$1.4 million is reserved for general fund, 1.1 is reserved for capital projects, .9 is reserved for liquid fuels, and .4 is reserved for the revolving loan fund.

The general fund balance decreased by \$3.7 million. The general fund is the chief operating fund of the City. At December 31, 2010, the total general fund balance was \$3.1 million.

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

The General Fund change in fund balance is attributed to the decrease in revenues of the earned income tax and sewage capacity sales. The E-911 change in fund balance is attributed to the decrease of phone line revenues received. The proprietary fund activity change of \$3.0 million is due to an increase in recycling collections and grant revenue in the solid waste fund and an increase of other water sales and metered rents in the water fund. All governmental and proprietary funds during these economical times have seen a decrease in investment earnings.

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

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 \$3.8 million during the year from the original budget of \$81.4 million to the final budget of \$85.2 million. Actual revenues were \$4.8 million below the final budget. This variance was partly due to the \$1.5 million decrease in total taxes collected. In addition, intergovernmental revenues were \$2.9 million lower than estimated due to the timing of receipts.

The general fund budget for expenditures increased \$5.6 million during the year from the original budget of \$74.7 million to the final budget of \$80.3 million. Actual expenditures were \$3.7 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

Allentown, PA ("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 the City attractive to businesses and families desirous of locating in an area that offers clean air, good water, diverse neighborhoods and one of the best municipal parks and recreation systems in the country – including a trout hatchery located in a serene wooded topography.

Allentown, known as "The City Without Limits", recorded a 10.7% growth rate between 2000 and 2010, representing an increase of 11,400 persons and bringing the total population to 118,032. This solidified the City's position as the third largest city in Pennsylvania as reported in the 2010 Census. Also of note, the 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 and 12% in 1990.

ECONOMIC DEVELOPMENT ACHIEVEMENTS

In response to state legislation uniquely targeted for Allentown creating a 130 acre Neighborhood Improvement Zone (NIZ) which offers a significantly beneficial special tax structure for new development within the NIZ, during 2010, Allentown's city administration began the

City of Allentown, Pennsylvania
Management's Discussion and Analysis

development of a vision and a plan for a vibrant future for the City's Downtown. Spearheaded by the Mayor and the City's Director of Community and Economic Development, the Allentown Entertainment District ("the AED") was created. The AED will be anchored by a new multi-purpose Arena that will include:

- 8,500 seats and home location for the American Hockey League ("AHL") Phantoms (farm team for the championship Philadelphia Flyers);
- 10,000 seats for concerts; and,
- A proposed flexible design which will allow for 365-day use to accommodate trade shows, concerts and other such family entertainment occasions as the circus, ice shows, and community events.

As a result, the AED will create an estimated 1,500 plus new jobs that will immediately benefit Allentown. This development will further enhance Allentown's desirability as a major regional community destination as well to serve as a catalyst for thousands of additional jobs and economic development throughout the Lehigh Valley. The permanent benefit of all this to Allentown will stretch well into our children's future.

The potential success of this project is strongly reassured by the caliber of the key participants in the Project's development team. They include:

- Comcast/Spectacor;
- Hammes Group and,
- The Brooks Group

Also on the economic development front in 2010, many new businesses were established in Allentown. They include:

- Alfred Benesch Company, an engineering firm with 20 plus employees;
- Cosmopolitan Restaurant, a \$6 million fine dining restaurant project located in the heart of Downtown Allentown, directly across from Symphony Hall;
- Sangria Restaurant, a \$1.5 million excellent casual dining and entertainment establishment based on the ground level of the Butz Corporate Center. Besides having a stylish dining room, Sangria also allows for very pleasant outdoor café dining and socializing; and,
- 809 Hamilton, a \$1.2 million project consisting of new market-rate residential units in a Keystone Opportunity Zone (KOZ) site.

Government, public utilities, education and health services 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. Besides what is noted above, the City and Lehigh County continue to seek ways to attract new businesses to the area. New business stimulates the economy by providing jobs and other economic benefits derived from productive employment.

Manufacturing employment in the Allentown-Bethlehem Metropolitan Statistical Areas in the apparel, food, electrical/electronic equipment, industrial machinery and printing and publishing areas are strong components of the overall employment picture. Air Products, Lehigh Portland Cement, Nestle, Olympus and LSI have selected the area as their headquarters or as the location of principal facilities. In 2009, we mentioned that Mack Trucks moved its headquarters from Allentown to North Carolina. Not long after that, in 2010, Lehigh Valley Health Network took over that campus and moved a large number of their employees into that facility thus proving once again the resiliency and viability of the City of Allentown as a base of employment.

COLLECTIVE BARGAINING SUCCESSES

2010 saw the City administration achieve labor negotiation success with 2 major collective bargaining units, the FOP (police) and the SEIU (a bulk of the City's non-uniformed labor force). Multi-year contracts were agreed upon thru 2015 and 2016, respectively. Working with the leadership of the bargaining units and beginning in 2011, each contract contained significant material savings for the City over their respective lives (Police: > \$6 million; SEIU: > \$7 million). This helps to create a much more stable budget planning process going forward. Of special note is the transfer of the members of the SEIU out of the City's health benefit plan and into the far larger national benefit plan of the SEIU. These efforts were especially rewarding to the administration as that these savings were achieved with the cooperative efforts of the leadership and members of each of the bargaining units.

Still, while most city expenses remained relatively stable due to stringent monitoring and management practices, certain areas continue to increase at rates above the Consumer Price Index, primarily as a result of increasing pension contribution costs. Revenue initiatives and cost control measures are being implemented to counter this situation.

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 ASSETS

DECEMBER 31, 2010

Assets	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
Current assets:				
Cash and cash equivalents	\$ 6,186,639	\$ 12,253,352	\$ 18,439,991	\$ 2,163,114
Cash and cash equivalents, restricted	-	-	-	1,229,096
Investments	-	-	-	1,351,763
Receivables (net of allowance for uncollectible):				
Taxes	11,482,103	-	11,482,103	-
Accounts	1,737,995	8,249,763	9,987,758	642,559
Grants	4,872,433	-	4,872,433	-
Notes receivable, current maturities	-	-	-	152,247
Other current assets	-	52,589	52,589	261,630
Internal balances	1,276,388	(1,276,388)	-	-
Total current assets	25,555,558	19,279,316	44,834,874	5,800,409
Noncurrent assets:				
Capital assets, net:				
Land	8,409,945	3,759,049	12,168,994	8,853,148
Property held for development	689,700	-	689,700	3,242,307
Buildings	7,083,879	17,274,684	24,358,563	20,067,571
Land and building improvements	11,568,689	15,837,884	27,406,573	37,950,659
Machinery and equipment	9,942,686	10,160,057	20,102,743	88,471
Vehicles	3,593,470	1,525,868	5,119,338	1,503,755
Distribution and collection systems	-	37,488,542	37,488,542	-
Construction in progress	15,888,719	817,318	16,706,037	112,184
Infrastructure	33,900,742	-	33,900,742	-
Total capital assets, net	91,077,830	86,863,402	177,941,232	71,818,095
Net pension asset	797,803	-	797,803	-
Loans and notes receivable	4,859,815	-	4,859,815	1,975,725
Other assets	2,112,169	1,637,049	3,749,218	345,937
Total noncurrent assets	98,847,617	88,500,451	187,348,068	74,139,757
Total Assets	124,403,175	107,779,767	232,182,942	79,940,166

(Continued)

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF NET ASSETS

DECEMBER 31, 2010
(Continued)

<u>Liabilities</u>	Primary Government		<u>Total</u>	<u>Component Units</u>
	Governmental Activities	Business-Type Activities		
Current liabilities:				
Accounts payable and other current liabilities	4,482,236	1,585,425	6,067,661	642,957
Wages payable	667,849	150,323	818,172	-
Accrued interest payable	869,920	245,630	1,115,550	-
Claims liability	2,202,589	-	2,202,589	-
Other liabilities	1,769,255	185,828	1,955,083	181,042
Due to other governments	169,674	-	169,674	-
Compensated absences	2,106,892	584,496	2,691,388	-
Unearned revenue	408,805	-	408,805	356,959
Capital leases payable	313,808	216,887	530,695	-
Line of credit	-	-	-	340,853
Mortgages and note payable, current maturities	-	-	-	939,105
Notes and bonds payable, current maturities	3,264,100	3,655,400	6,919,500	1,333,181
Total current liabilities	16,255,128	6,623,989	22,879,117	3,794,097
Noncurrent liabilities:				
Capital leases payable	906,187	20,598	926,785	-
Compensated absences	494,210	184,579	678,789	-
Unearned revenue	-	-	-	10,047,268
Other post-employment benefit liability	4,979,176	497,119	5,476,295	10,063
Mortgage and note payable	-	-	-	4,617,375
Notes and bonds payable	92,548,482	19,525,200	112,073,682	18,023,780
Other	-	-	-	200,000
Total noncurrent liabilities	98,928,055	20,227,496	119,155,551	32,898,486
Total Liabilities	115,183,183	26,851,485	142,034,668	36,692,583
<u>Net Assets</u>				
Invested in capital assets, net of related debt	25,370,253	63,445,317	88,815,570	44,466,494
Restricted for:				
Public works	933,500	-	933,500	-
Community development	5,112,889	-	5,112,889	2,880,573
Public safety	61,013	-	61,013	-
Unrestricted (deficit)	(22,257,663)	17,482,965	(4,774,698)	(4,099,484)
Total Net Assets	\$ 9,219,992	\$ 80,928,282	\$ 90,148,274	\$ 43,247,583

(Concluded)

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

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 7,932,586	\$ 2,209,673	\$ 73,477	\$ -
Public safety	54,309,067	7,202,889	993,247	329,283
Community development	13,845,854	3,174,152	7,377,154	-
Public works	12,617,569	183,134	1,911,110	3,257,122
Health and sanitation	2,547,999	180,922	2,181,841	-
Parks and recreation	2,014,847	411,409	1,616,231	764,290
Interest on long-term debt	5,071,431	-	-	-
Total governmental activities	98,339,353	13,362,179	14,153,060	4,350,695
Business-type activities:				
Water fund	11,410,407	15,220,117	58,699	-
Sewer fund	13,034,825	14,480,766	103,037	-
Municipal golf course	1,027,292	1,316,067	2,829	-
Solid waste fund	12,584,872	13,467,648	1,115,761	-
Total business-type activities	38,057,396	44,484,598	1,280,326	-
Total primary government	\$ 136,396,749	\$ 57,846,777	\$ 15,433,386	\$ 4,350,695
Component units:				
Allentown Redevelopment Authority	\$ 3,248,681	\$ 35,858	\$ 2,789,661	\$ -
Allentown Economic Development Corporation	2,542,247	1,523,409	351,319	1,045,183
Allentown Parking Authority	5,714,603	5,842,964	-	250,000
Total component units	\$ 11,505,531	\$ 7,402,231	\$ 3,140,980	\$ 1,295,183

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 Assets

Net Assets:

Beginning of year, restated

End of year

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

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Units
\$ (5,649,436)	\$ -	\$ (5,649,436)	\$ -
(45,783,648)	-	(45,783,648)	-
(3,294,548)	-	(3,294,548)	-
(7,266,203)	-	(7,266,203)	-
(185,236)	-	(185,236)	-
777,083	-	777,083	-
(5,071,431)	-	(5,071,431)	-
<u>(66,473,419)</u>	<u>-</u>	<u>(66,473,419)</u>	<u>-</u>
-	3,868,409	3,868,409	-
-	1,548,978	1,548,978	-
-	291,604	291,604	-
<u>-</u>	<u>1,998,537</u>	<u>1,998,537</u>	<u>-</u>
-	7,707,528	7,707,528	-
<u>(66,473,419)</u>	<u>7,707,528</u>	<u>(58,765,891)</u>	<u>-</u>
-	-	-	(423,162)
-	-	-	377,664
<u>-</u>	<u>-</u>	<u>-</u>	<u>378,361</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>332,863</u>
29,591,030	-	29,591,030	-
14,857,202	-	14,857,202	-
66,696	-	66,696	-
961,856	-	961,856	-
14,121,087	-	14,121,087	-
212,979	128,545	341,524	69,384
4,813,116	(4,813,116)	-	-
<u>64,623,966</u>	<u>(4,684,571)</u>	<u>59,939,395</u>	<u>69,384</u>
(1,849,453)	3,022,957	1,173,504	402,247
<u>11,069,445</u>	<u>77,905,325</u>	<u>88,974,770</u>	<u>42,845,336</u>
<u>\$ 9,219,992</u>	<u>\$ 80,928,282</u>	<u>\$ 90,148,274</u>	<u>\$ 43,247,583</u>

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

CITY OF ALLENTOWN, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2010

Assets	General	Liquid Fuels	Community Development Block Grant
Cash and cash equivalents	\$ 128,943	\$ 1,130,584	\$ 611,934
Receivables:			
Taxes	11,482,103	-	-
Loans	150,000	-	4,559,115
Accounts	1,550,417	-	-
Grants	345,952	-	1,050,893
Due from other funds	2,859,015	-	-
Total Assets	\$ 16,516,430	\$ 1,130,584	\$ 6,221,942
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	\$ 1,604,566	\$ 181,337	\$ 605,036
Accrued wages payable	640,676	15,747	-
Due to other funds	124,436	-	368,849
Due to other governments	6,104	-	163,570
Deferred revenues	9,569,454	-	175,009
Other liabilities	1,454,530	-	196,656
Total Liabilities	13,399,766	197,084	1,509,120
Fund Balance:			
Reserved for:			
Encumbrances	1,428,755	-	-
Public works	-	933,500	-
Community development	-	-	4,712,822
Public safety	-	-	-
Unreserved (deficits), undesignated, reported in:			
General Fund	1,687,909	-	-
Capital projects fund	-	-	-
Special revenue fund	-	-	-
Total Fund Balance	3,116,664	933,500	4,712,822
Total Liabilities and Fund Balance	\$ 16,516,430	\$ 1,130,584	\$ 6,221,942

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

<u>Revolving Loan</u>	<u>Capital Projects</u>	<u>Trexler</u>	<u>E-911</u>	<u>Total Governmental Funds</u>
\$ 249,367	\$ -	\$ -	\$ 767,061	\$ 2,887,889
-	-	-	-	11,482,103
150,700	-	-	-	4,859,815
-	104,318	-	-	1,654,735
-	3,107,667	367,921	-	4,872,433
-	3,083,065	-	-	5,942,080
<u>\$ 400,067</u>	<u>\$ 6,295,050</u>	<u>\$ 367,921</u>	<u>\$ 767,061</u>	<u>\$ 31,699,055</u>
\$ -	\$ 1,364,324	\$ 10,022	\$ 14,578	\$ 3,779,863
-	-	9,379	-	665,802
-	3,271,105	209,832	691,470	4,665,692
-	-	-	-	169,674
-	-	233,796	-	9,978,259
-	118,069	-	-	1,769,255
<u>-</u>	<u>4,753,498</u>	<u>463,029</u>	<u>706,048</u>	<u>21,028,545</u>
-	1,136,567	-	1,557	2,566,879
-	-	-	-	933,500
400,067	-	-	-	5,112,889
-	-	-	59,456	59,456
-	-	-	-	1,687,909
-	404,985	-	-	404,985
-	-	(95,108)	-	(95,108)
<u>400,067</u>	<u>1,541,552</u>	<u>(95,108)</u>	<u>61,013</u>	<u>10,670,510</u>
<u>\$ 400,067</u>	<u>\$ 6,295,050</u>	<u>\$ 367,921</u>	<u>\$ 767,061</u>	<u>\$ 31,699,055</u>

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

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF ALLENTOWN, PENNSYLVANIA
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

DECEMBER 31, 2010

Total Fund Balance - Governmental Funds **\$ 10,670,510**

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. 91,077,830

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. 9,569,454

Net pension asset included on the statement of net assets 797,803

Assets and liabilities of the internal service fund reported in the statement of net assets are used to charge the cost of insurance to individual funds and are not reported in the funds. 463,492

Debt issuance costs are deferred and amortized on the statement of net assets. 2,112,169

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	(869,920)	
Bonds payable	(95,812,582)	
Capital leases payable	(1,219,995)	
Compensated absences	(2,589,593)	
Other post-employment benefits liability	(4,979,176)	
	(105,471,266)	(105,471,266)

Total Net Assets - Governmental Activities **\$ 9,219,992**

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, 2010

	General	Liquid Fuels	Community Development Block Grant
Revenues:			
Taxes	\$ 45,438,333	\$ -	\$ -
Licenses and permits	4,874,549	-	-
Charges for services	4,705,301	-	-
Fines and forfeits	500,334	-	-
Investment earnings	190,664	17,554	579
Intergovernmental revenues	13,788,940	1,924,547	6,977,087
Other	2,930,158	61,490	102,144
Total revenues	72,428,279	2,003,591	7,079,810
Expenditures:			
Current:			
General government	7,492,556	-	-
Public safety	47,344,766	-	-
Community development	7,086,275	-	7,084,890
Public works	7,636,188	2,104,571	-
Health and sanitation	2,738,801	-	-
Parks and recreation	1,426,949	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay	622,895	-	-
Total expenditures	74,348,430	2,104,571	7,084,890
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,920,151)	(100,980)	(5,080)
Other Financing Sources (Uses):			
Issuance of long-term debt	258,976	-	-
Transfers in	5,260,085	-	-
Transfers out	(7,296,729)	-	(419,735)
Total other financing sources (uses)	(1,777,668)	-	(419,735)
Net Change in Fund Balance	(3,697,819)	(100,980)	(424,815)
Fund Balance (Deficit):			
Beginning of year, restated	6,814,483	1,034,480	5,137,637
End of year	<u>\$ 3,116,664</u>	<u>\$ 933,500</u>	<u>\$ 4,712,822</u>

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

Revolving Loan	Debt Service	Capital Projects	Trexler	E-911	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,438,333
-	-	-	-	-	4,874,549
-	-	147,861	-	-	4,853,162
-	-	-	-	-	500,334
-	-	-	-	4,182	212,979
400,000	-	5,748,899	1,597,989	-	30,437,462
67	-	6,807	18,242	2,318,660	5,437,568
<u>400,067</u>	<u>-</u>	<u>5,903,567</u>	<u>1,616,231</u>	<u>2,322,842</u>	<u>91,754,387</u>
-	14,706	-	-	-	7,507,262
-	-	-	-	2,755,618	50,100,384
-	-	-	-	-	14,171,165
-	-	-	-	-	9,740,759
-	-	-	-	-	2,738,801
-	-	-	1,076,369	-	2,503,318
-	3,131,400	-	-	-	3,131,400
-	3,942,027	-	-	-	3,942,027
-	-	9,386,229	-	-	10,009,124
<u>-</u>	<u>7,088,133</u>	<u>9,386,229</u>	<u>1,076,369</u>	<u>2,755,618</u>	<u>103,844,240</u>
<u>400,067</u>	<u>(7,088,133)</u>	<u>(3,482,662)</u>	<u>539,862</u>	<u>(432,776)</u>	<u>(12,089,853)</u>
-	-	-	-	-	258,976
-	7,088,133	51,025	-	350,000	12,749,243
-	-	(60,694)	(69,925)	(38,328)	(7,885,411)
<u>-</u>	<u>7,088,133</u>	<u>(9,669)</u>	<u>(69,925)</u>	<u>311,672</u>	<u>5,122,808</u>
400,067	-	(3,492,331)	469,937	(121,104)	(6,967,045)
<u>-</u>	<u>-</u>	<u>5,033,883</u>	<u>(565,045)</u>	<u>182,117</u>	<u>17,637,555</u>
<u>\$ 400,067</u>	<u>\$ -</u>	<u>\$ 1,541,552</u>	<u>\$ (95,108)</u>	<u>\$ 61,013</u>	<u>\$ 10,670,510</u>

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

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2010

Net Change in Fund Balance - Governmental Funds	\$ (6,967,045)
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.	10,177,683
Depreciation expense on capital assets is reported in the statement of activities but they do not require the use of current financial resources, therefore, depreciation expense is not reported as expenditures in governmental funds.	(4,070,624)
The net effect of various transactions involving capital assets (e.g., disposals and contributions) is to decrease net assets.	(20,515)
Revenues related to real estate and other taxes and deferred revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(77,603)
Vacation 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.	(248,868)
Activities of the internal service fund are reported as net expense in the statement of activities.	(1,741,048)
Change in net pension asset not reflected in the funds.	(11,580)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds.	(258,976)
Principal payments on capital leases consumes the current financial resources of governmental funds.	485,334
The repayment of principal of long-term debt consumes the current financial resources of governmental funds.	3,131,400
The accretion of capital appreciation bonds does not consume current financial resources of governmental funds.	(1,175,232)
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.	(57,288)
Accrued interest expense on long-term debt is reported in the statement of activities but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds.	45,828
Other post-employment benefits are reported in the statement of activities but does not require the use of current financial resources; therefore, the benefits are not reported as expenditures in governmental funds.	(1,060,919)
Change in Net Assets - Governmental Activities	\$ (1,849,453)

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

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

DECEMBER 31, 2010

Assets	Water Fund	Sewer Fund
Current assets:		
Cash and cash equivalents	\$ 1,891,888	\$ 4,547,928
Accounts receivable:		
Metered charges	5,197,419	2,923,548
Refuse collection	-	-
Other	30,674	551,500
Signatories	372,251	1,697,789
Total accounts receivable	5,600,344	5,172,837
Allowance for doubtful accounts	1,755,354	1,303,637
Net accounts receivable	3,844,990	3,869,200
Due from other funds	-	1,003,667
Inventories	-	-
Total current assets	5,736,878	9,420,795
Noncurrent assets:		
Capital assets, net:		
Land	2,595,840	28,450
Buildings	11,531,239	29,093,423
Land and building improvements	15,130,128	5,706,742
Machinery and equipment	19,866,476	13,851,696
Vehicles	2,682,276	1,947,460
Distribution and collection systems	41,372,814	10,714,079
Construction in progress	315,733	501,585
Total capital assets	93,494,506	61,843,435
Accumulated depreciation	(36,918,853)	(37,349,571)
Net capital assets	56,575,653	24,493,864
Other assets	1,088,275	548,774
Total noncurrent assets	57,663,928	25,042,638
Total Assets	63,400,806	34,463,433

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

Business-type Activities - Enterprise Funds			
<u>Municipal Golf Course</u>	<u>Solid Waste Fund</u>	<u>Total</u>	<u>Internal Service Fund</u>
\$ 123,862	\$ 5,689,674	\$ 12,253,352	\$ 3,298,750
-	-	8,120,967	-
-	1,505,866	1,505,866	-
-	-	582,174	83,260
-	-	2,070,040	-
-	1,505,866	12,279,047	83,260
-	970,293	4,029,284	-
-	535,573	8,249,763	83,260
-	-	1,003,667	-
52,589	-	52,589	-
176,451	6,225,247	21,559,371	3,382,010
1,134,759	-	3,759,049	-
227,475	1,017,066	41,869,203	-
3,061,949	1,438,630	25,337,449	-
779,002	1,708,722	36,205,896	-
320,354	2,898,270	7,848,360	-
37,465	-	52,124,358	-
-	-	817,318	-
5,561,004	7,062,688	167,961,633	-
(2,717,594)	(4,112,213)	(81,098,231)	-
2,843,410	2,950,475	86,863,402	-
-	-	1,637,049	-
2,843,410	2,950,475	88,500,451	-
3,019,861	9,175,722	110,059,822	3,382,010

(Continued)

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

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

DECEMBER 31, 2010
(Continued)

	Water Fund	Sewer Fund
Liabilities		
<hr/>		
Current liabilities:		
Accounts payable	263,215	419,975
Wages payable	57,483	69,838
Accrued interest payable	137,673	107,957
Claims liability	-	-
Other liabilities	104,119	-
Due to other funds	2,280,055	-
Compensated absences	220,061	265,147
Capital leases payable	34,005	136,021
Bonds payable	2,390,400	1,265,000
Total current liabilities	5,487,011	2,263,938
Noncurrent liabilities:		
Capital leases payable	-	-
Compensated absences	69,493	83,731
Bonds payable	10,965,200	8,560,000
Other post-employment benefit liability	196,047	226,387
Total noncurrent liabilities	11,230,740	8,870,118
Total Liabilities	16,717,751	11,134,056
Net Assets		
<hr/>		
Invested in capital assets, net of related debt	43,186,048	14,532,843
Unrestricted	3,497,007	8,796,534
Total Net Assets	\$ 46,683,055	\$ 23,329,377

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

<u>Business-type Activities - Enterprise Funds</u>			
<u>Municipal Golf Course</u>	<u>Solid Waste Fund</u>	<u>Total</u>	<u>Internal Service Fund</u>
7,547	894,688	1,585,425	702,373
4,112	18,890	150,323	2,047
-	-	245,630	-
-	-	-	2,202,589
547	81,162	185,828	-
-	-	2,280,055	-
17,909	81,379	584,496	9,322
-	46,861	216,887	-
-	-	3,655,400	-
<u>30,115</u>	<u>1,122,980</u>	<u>8,904,044</u>	<u>2,916,331</u>
-	20,598	20,598	-
5,656	25,699	184,579	2,187
-	-	19,525,200	-
-	74,685	497,119	-
<u>5,656</u>	<u>120,982</u>	<u>20,227,496</u>	<u>2,187</u>
<u>35,771</u>	<u>1,243,962</u>	<u>29,131,540</u>	<u>2,918,518</u>
2,843,410	2,883,016	63,445,317	-
140,680	5,048,744	17,482,965	463,492
<u>\$ 2,984,090</u>	<u>\$ 7,931,760</u>	<u>\$ 80,928,282</u>	<u>\$ 463,492</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 ASSETS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2010

	Water Fund	Sewer Fund
Operating Revenues:		
<hr/>		
Charges for services:		
Metered charges	\$ 13,046,383	\$ 7,669,251
Refuse collections	-	-
Recycling	-	-
Other charges	1,842,532	6,509,426
Miscellaneous	331,202	302,089
Total operating revenues	15,220,117	14,480,766
Operating Expenses:		
<hr/>		
Personnel services	6,149,271	7,584,268
Utility services	664,895	887,622
Contracted services	80,084	574,695
Materials and supplies	1,208,320	1,006,101
Claims and benefits	-	-
Depreciation and amortization	2,042,318	1,907,696
Miscellaneous	600,745	682,898
Total operating expenses	10,745,633	12,643,280
Operating Income (Loss)	4,474,484	1,837,486
Non-Operating Revenues (Expenses):		
<hr/>		
Investment income (loss)	22,428	26,499
Interest expense	(664,774)	(391,545)
Grants	58,699	103,037
Total non-operating revenues (expenses)	(583,647)	(262,009)
Income (loss) before transfers	3,890,837	1,575,477
Transfers out	(2,027,732)	(1,830,860)
Change in Net Assets	1,863,105	(255,383)
Net Assets:		
<hr/>		
Beginning of year, restated	44,819,950	23,584,760
End of year	\$ 46,683,055	\$ 23,329,377

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

<u>Business-type Activities - Enterprise Funds</u>			
<u>Municipal</u>	<u>Solid Waste</u>		<u>Internal</u>
<u>Golf Course</u>	<u>Fund</u>	<u>Totals</u>	<u>Service Fund</u>
\$ -	-	\$ 20,715,634	\$ -
-	12,694,465	12,694,465	-
-	543,208	543,208	-
1,194,682	-	9,546,640	15,219,711
121,385	229,975	984,651	202,779
<u>1,316,067</u>	<u>13,467,648</u>	<u>44,484,598</u>	<u>15,422,490</u>
606,599	1,993,747	16,333,885	-
18,002	17,731	1,588,250	-
78,723	9,770,404	10,503,906	-
152,662	254,786	2,621,869	-
-	-	-	17,145,443
161,624	352,567	4,464,205	-
9,682	195,637	1,488,962	-
<u>1,027,292</u>	<u>12,584,872</u>	<u>37,001,077</u>	<u>17,145,443</u>
<u>288,775</u>	<u>882,776</u>	<u>7,483,521</u>	<u>(1,722,953)</u>
1,880	77,738	128,545	30,499
-	-	(1,056,319)	-
2,829	1,115,761	1,280,326	2,122
<u>4,709</u>	<u>1,193,499</u>	<u>352,552</u>	<u>32,621</u>
293,484	2,076,275	7,836,073	(1,690,332)
(384,921)	(569,603)	(4,813,116)	(50,716)
(91,437)	1,506,672	3,022,957	(1,741,048)
<u>3,075,527</u>	<u>6,425,088</u>	<u>77,905,325</u>	<u>2,204,540</u>
<u>\$ 2,984,090</u>	<u>\$ 7,931,760</u>	<u>\$ 80,928,282</u>	<u>\$ 463,492</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, 2010

	Water Fund	Sewer Fund
Cash Flows From Operating Activities :		
Receipts from customers and users	\$ 14,739,848	\$ 14,896,542
Payments to suppliers for services	(2,535,533)	(3,394,271)
Payments to employees	(6,021,476)	(7,484,208)
Net cash provided by (used in) operating activities	6,182,839	4,018,063
Cash Flows From Non-Capital Financing Activities:		
Operating grants received	58,699	103,037
Transfers out	(2,027,732)	(1,830,860)
Net cash provided by (used in) non-capital financing activities	(1,969,033)	(1,727,823)
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(398,978)	(640,560)
Advance from/to other fund	(32,267)	242,310
Principal paid on capital debt	(2,476,600)	(1,230,000)
Payments of obligations under capital leases	(99,132)	(396,527)
Interest paid on long-term obligations	(662,030)	(409,741)
Net cash used in capital and related financing activities	(3,669,007)	(2,434,518)
Cash Flows From Investing Activities:		
Interest received	22,428	26,499
Net cash provided by investing activities	22,428	26,499
Net Increase (Decrease) in Cash and Cash Equivalents	567,227	(117,779)
Cash and Cash Equivalents:		
Beginning of year	1,324,661	4,665,707
End of year	\$ 1,891,888	\$ 4,547,928
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating income	\$ 4,474,484	\$ 1,837,486
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,042,318	1,907,696
Loss on disposal of capital asset	8,207	109,640
Changes in:		
Accounts receivable	(480,269)	415,776
Accounts payable	3,140	(352,595)
Accrued payroll	(96,419)	(130,279)
Claims liability	-	-
Other liabilities	7,164	-
Compensated absences	28,167	3,952
Other post-employment benefit liability	196,047	226,387
Total adjustments	1,708,355	2,180,577
Net cash provided by (used in) operating activities	\$ 6,182,839	\$ 4,018,063

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

Business-type Activities - Enterprise Funds

<u>Municipal Golf Course</u>	<u>Solid Waste Fund</u>	<u>Totals</u>	<u>Internal Service Fund</u>
\$ 1,316,067	\$ 13,456,532	\$ 44,408,989	\$ 15,339,230
(269,099)	(10,969,609)	(17,168,512)	(16,456,172)
(606,319)	(1,947,814)	(16,059,817)	6,633
<u>440,649</u>	<u>539,109</u>	<u>11,180,660</u>	<u>(1,110,309)</u>
2,829	1,115,761	1,280,326	2,122
(384,921)	(569,603)	(4,813,116)	(50,716)
<u>(382,092)</u>	<u>546,158</u>	<u>(3,532,790)</u>	<u>(48,594)</u>
(99,692)	(135,168)	(1,274,398)	-
-	-	210,043	-
-	-	(3,706,600)	-
-	(42,431)	(538,090)	-
-	-	(1,071,771)	-
<u>(99,692)</u>	<u>(177,599)</u>	<u>(6,380,816)</u>	<u>-</u>
1,880	77,738	128,545	30,499
<u>1,880</u>	<u>77,738</u>	<u>128,545</u>	<u>30,499</u>
(39,255)	985,406	1,395,599	(1,128,404)
163,117	4,704,268	10,857,753	4,427,154
<u>\$ 123,862</u>	<u>\$ 5,689,674</u>	<u>\$ 12,253,352</u>	<u>\$ 3,298,750</u>
<u>\$ 288,775</u>	<u>\$ 882,776</u>	<u>\$ 7,483,521</u>	<u>\$ (1,722,953)</u>
161,624	352,567	4,464,205	-
-	-	117,847	-
-	(11,116)	(75,609)	(83,260)
(10,248)	(743,400)	(1,103,103)	79,449
(6,013)	(36,341)	(269,052)	(3,703)
-	-	-	609,822
218	12,349	19,731	-
6,293	7,589	46,001	10,336
-	74,685	497,119	-
<u>151,874</u>	<u>(343,667)</u>	<u>3,697,139</u>	<u>612,644</u>
<u>\$ 440,649</u>	<u>\$ 539,109</u>	<u>\$ 11,180,660</u>	<u>\$ (1,110,309)</u>

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

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS

DECEMBER 31, 2010

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ 4,468,450
Interest receivable	14	-
Other receivables	132,356	-
Investments, at fair value:		
Money market funds	12,146,247	-
Negotiable certificates of deposit	672,637	-
Equity mutual funds	71,976,068	-
Bond mutual funds	30,657,722	-
Total Assets	<u>115,585,044</u>	<u>4,468,450</u>
Liabilities		
Payroll tax liability	-	1,148,757
Due to other governments	-	3,319,693
Total Liabilities	<u>-</u>	<u>\$ 4,468,450</u>
Net Assets		
Held in trust for pension benefits	<u>\$ 115,585,044</u>	

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

CITY OF ALLENTOWN, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2010

	<u>Pension Trust Funds</u>
Additions:	
<hr/>	
Contributions:	
Employer	\$ 9,203,690
Plan members	1,304,796
Total contributions	<u>10,508,486</u>
Investment income:	
Net appreciation in fair value of investments	10,282,014
Interest and dividends	2,405,143
Less investment expenses	(114,664)
Net investment income	<u>12,572,493</u>
Other income:	
Miscellaneous	9,891
Total additions	<u>23,090,870</u>
Deductions:	
<hr/>	
Benefits paid to recipients	16,934,299
Administrative and other fees	22,332
Total deductions	<u>16,956,631</u>
Increase in Net Assets	6,134,239
Net Assets:	
<hr/>	
Beginning of year	<u>109,450,805</u>
End of year	<u><u>\$115,585,044</u></u>

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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 component units, discussed in Note 2, are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Basis of Presentation

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

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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 as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences 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 required to be accounted for in another fund.

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

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Revolving Loan Fund – is used to account for loans community and economic development activities that are eligible under the Housing and Redevelopment Assistance grant program.

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

Capital Projects Fund - is used to account for financial resources to be used for the acquisition or construction of major capital outlay.

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

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

The City reports five major proprietary funds:

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

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

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

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

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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.

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

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

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

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

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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 pension trust funds. 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.
-

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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

Internal Balances

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

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."

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 \$1,842,000 at December 31, 2010. The allowance for curb and sidewalk charges for services, presented in the Capital Projects Fund, was approximately \$216,000 at December 31, 2010. The allowance for water, sewer, and solid waste, presented in their respective funds, was approximately \$1.8 million, \$1.3 million, and \$1 million, respectively, at December 31, 2010.

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, 2010 are immaterial.

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

Capital Assets

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

General infrastructure assets consist of bridges, traffic lights and signals, streets and streetlights, and storm sewers and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Collections of art, historical artifacts, and similar items have been capitalized.

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the 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 outstanding at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end for unfilled obligations of the current year budget are reappropriated in the succeeding year. The City reports encumbrances as reservations of fund balance, except for reimbursement grant related encumbrances, in all governmental funds at year-end. The subsequent year's appropriations provide authority to complete the transactions as expenditures. Encumbrances outstanding at December 31, 2010 consisted of \$350,000 and \$6,132,082 in reimbursement grant related encumbrances, in the general fund and capital projects fund, respectively, and are not reflected on the governmental funds balance sheet, because reimbursement grants have zero fund balances at year-end.

Encumbrance accounting is used in proprietary fund types as a tool for budgetary control, but reserves are not reported. Encumbrances outstanding in the proprietary funds at December 31, 2010 in the water, sewer, golf, and solid waste fund were \$70,548, \$534,178, \$111, and \$79,894, respectively.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Restricted Net Assets

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

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on their length of employment. Vacation leave carried by employees varies depending upon collective bargaining agreements and City policy. Accumulated sick leave may be compensated to employees at the rate of \$10 to \$20 per day, depending upon employees' classification, up to 125 days upon retirement.

Deferred Revenues

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

Bond Discounts And Issuance Costs

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

Property Taxes

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

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

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

The 2010 tax levy was 17.53 mills.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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, 2010, appropriate interfund receivables or payables have been established.

Intergovernmental Revenues

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

Self-Insurance

The City is self-insured for workers' compensation, property, casualty, automobile, and general liability claim losses. At December 31, 2010, 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 \$2,202,589 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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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

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.

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. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions.*" The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The City is required to adopt Statement No. 54 for its calendar year 2011.

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 City is required to adopt Statement No. 61 for its calendar year 2013.

GASB 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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The provisions of this statement are effective for the City's December 31, 2012 financial statements.

2. REPORTING ENTITY

The City has evaluated all related entities (authorities, commissions, and affiliates) for the possible inclusion in the financial reporting entity.

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

Allentown Redevelopment Authority

The Allentown Redevelopment Authority (Authority), an entity legally separate from the City, is governed by a board appointed by the Mayor. The Authority, in collaboration with the City's Department of Community and Economic Development, addresses urban revitalization. The Authority is financially dependent on the City.

Allentown Economic Development Corporation

Allentown Economic Development Corporation (AEDC), an entity legally separate from the City, is governed by a board elected by the membership of AEDC, in addition to the Mayor, a City Council member, the City Director of Economic Development, and the County Executive of Lehigh County. Its purpose is to encourage economic development in the City. AEDC provides technical and financial assistance to existing business and fosters the attraction of new commerce into the City. The City has included AEDC because of its close relation to 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 appointed by the Mayor. The City has guaranteed the debt issuance of the Parking Authority.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Condensed Financial Statements

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

CONDENSED FINANCIAL STATEMENTS DISCRETELY PRESENTED COMPONENT UNITS STATEMENTS OF NET ASSETS DECEMBER 31, 2010

	Allentown Redevelopment Authority	Allentown Economic Development Corporation*	Allentown Parking Authority	Total
ASSETS				
Cash and cash equivalents	\$ 61,919	\$ 1,415,774	\$ 685,421	\$ 2,163,114
Cash and cash equivalent, restricted	48,262	1,180,834	-	1,229,096
Investments	-	-	1,351,763	1,351,763
Accounts receivable	196,283	210,959	235,317	642,559
Loans and notes receivable	880,000	1,247,972	-	2,127,972
Other assets	1,501	53,799	552,267	607,567
Capital assets, net	3,242,307	25,115,810	43,459,978	71,818,095
Total assets	\$ 4,430,272	\$ 29,225,148	\$ 46,284,746	\$ 79,940,166
LIABILITIES				
Accounts payable	\$ 239,461	\$ 72,252	\$ 331,244	\$ 642,957
Unearned revenue	-	-	10,404,227	10,404,227
Long-term debt	845,000	4,711,480	19,356,961	24,913,441
Other liabilities	14,935	291,266	425,757	731,958
Total liabilities	1,099,396	5,074,998	30,518,189	36,692,583
NET ASSETS				
Invested in capital assets, net of related debt	-	20,704,330	23,762,164	44,466,494
Restricted	912,684	1,967,889	-	2,880,573
Unrestricted	2,418,192	1,477,931	(7,995,607)	(4,099,484)
Total net assets	3,330,876	24,150,150	15,766,557	43,247,583
Total liabilities and net assets	\$ 4,430,272	\$ 29,225,148	\$ 46,284,746	\$ 79,940,166

*Presented as of June 30, 2010

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

CONDENSED FINANCIAL STATEMENTS DISCRETELY PRESENTED COMPONENT UNITS STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2010

	Allentown Redevelopment Authority	Allentown Economic Development Corporation*	Allentown Parking Authority	Total
Program revenues:				
Charges for services	\$ 35,858	\$ 1,523,409	\$ 5,842,964	\$ 7,402,231
Grants and contributions:				
Operating	2,789,661	351,319	-	3,140,980
Capital	-	1,045,183	250,000	1,295,183
Other revenues:				
Investment income	99	57,299	11,986	69,384
Total revenues	2,825,618	2,977,210	6,104,950	11,907,778
Expenses:				
Operating and other expenses	3,248,681	2,542,247	5,714,603	11,505,531
Total expenses	3,248,681	2,542,247	5,714,603	11,505,531
Net income (loss)	(423,063)	434,963	390,347	402,247
Net assets, beginning of year	3,753,939	23,715,187	15,376,210	42,845,336
Net assets, end of year	\$ 3,330,876	\$ 24,150,150	\$ 15,766,557	\$ 43,247,583

*Presented for the year ended June 30, 2010

3. DEPOSITS AND INVESTMENTS

The carrying amounts of cash and investments at December 31, 2010 consist of the following:

Petty cash	\$ 9,750
Cash and cash equivalents	22,898,691
Investments	115,452,674
	\$ 138,361,115

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Reconciliation to Statements of Net Assets/Balance Sheets

Cash and cash equivalents:	
Governmental activities	\$ 6,186,639
Business-type activities	12,253,352
Fiduciary funds	4,468,450
	<hr/>
	22,908,441
	<hr/>
Investments:	
Fiduciary funds	115,452,674
	<hr/>
	\$ 138,361,115
	<hr/>

Cash and Cash Equivalents

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

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, 2010, the City's book balance was \$22,908,441 and the bank balance was \$25,291,646. Of the bank balance, \$623,397 was covered by federal depository insurance and \$24,668,249 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, 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, 2010, the City's investments were comprised of the following:

Money market fund	\$ 12,773,545
Negotiable certificates of deposit	672,637
Equity mutual fund	71,976,068
Bond mutual fund	30,657,722
Less: Assets transferred for benefit payments	(627,298)
	<hr/>
Total	\$ 115,452,674
	<hr/>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

As of December 31, 2010, the City had the following investments in debt securities:

Investment Type	Fair Value	Debt Security Maturities				Rating
		Less than 1 year	1-5 Years	6-10 Years	More than 10 years	
Bond mutual funds	\$ 204,154	\$ -	\$ 204,154	\$ -	\$ -	Aaa
Bond mutual funds	19,937,915	-	19,937,915	-	-	AA
Bond mutual funds	10,348,775	-	89,165	10,259,610	-	A
Bond mutual funds	69,697	-	-	-	69,697	BBB
Bond mutual funds	40,912	-	-	40,912	-	BB
Bond mutual funds	56,269	-	56,269	-	-	B
Total debt securities	\$30,657,722	\$ -	\$20,287,503	\$10,300,522	\$ 69,697	

Interest Rate Risk

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

The City's pension plans have a formal investment policy that has set a three to five year investment horizon.

Credit Risk

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

The City's pension plans have a formal investment policy that seeks to minimize the risk of investment losses by requiring diversification of the investment portfolio targeted at 51% domestic equities, 12% international equities, 5% real estate, and 32% fixed income.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2010, \$115,452,674 of the City's investments is 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.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Component Units' Custodial Credit Risk - Deposits

Authority

The Authority's available cash is invested in demand deposit accounts. At December 31, 2010, the carrying amounts of the Authority's bank deposits were \$110,181. The corresponding bank balances at December 31, 2010 were \$130,815, all of which were directly covered by depository insurance of a federal agency.

AEDC

AEDC maintains cash balances at financial institutions located in eastern Pennsylvania. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition, all uninsured funds are collateralized by the financial institution in the amount of \$1,317,049 at June 30, 2010.

Parking Authority

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 custodial credit risk. As of December 31, 2010, \$740,853 of the Parking Authority's bank balance of \$1,994,394 was exposed to custodial credit risk

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

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

External investment pools:

Pennsylvania Treasury Department INVEST Program (INVEST)

The 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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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. The Authority's investment in INVEST has been rated AAAM, the highest rating available, by Standard & Poor's, an independent investment rating company. The Parking Authority's investment in INVEST has also been rated AAAN1+, the highest rating available, by Fitch, an independent investment rating company.

Pennsylvania School District Liquid Asset Fund (PSDLAF)

The Parking Authority invests in the Pennsylvania School District Liquid Asset Fund (PSDLAF), a customized cash management program created in 1982 by the Pennsylvania School Boards Association and the Pennsylvania Association of School Business Officials to provide a unique set of benefits and enhancements for investing public funds. The general objective of the 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 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. The Parking Authority's investment in PSDLAF has been rated AAAM, the highest rating available, by Standard & Poor's.

As of December 31, 2010, the carrying amounts of external investment pool assets were \$84,893. The fair value of external investment pool assets approximate their carrying values as of December 31, 2010. As required by the GASB, investments in external investment

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

pools are uncategorized with regard to risk and are not included in the custodial credit risk presented above.

4. LOANS AND MORTGAGES RECEIVABLE

Authority – Loans Receivable

Loans receivable as of December 31, 2010 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. Additional modification to the loan agreement and payment schedule will be determined after August 2011. 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.

The Authority has an interest-free loan receivable of \$880,000 with a private developer for the Cosmopolitan Project. The Authority will receive interest only through 2018, and then varying amounts of principal as set forth in the agreement plus interest through 2050. A “voluntary sale” notice must be provided to the Authority for any sale or transfer of the Project prior to the maturity date of the note.

AEDC – Revolving Loan Program Receivable

AEDC’s revolving loan program receivables include \$211,310 on installment direct loans requiring monthly payments of \$3,152 including interest from 5% to 6% with final payments due July 2013 through April 2027. These notes are collateralized primarily by third mortgages on real estate and third liens on equipment, furniture, and fixtures.

AEDC’s revolving loan program receivables also include \$263,538 from the Neighborhood Business Revitalization Program of City (NBR) and \$27,388 from a Downtown Fayade Program requiring monthly payments in the aggregate of \$5,840 including interest from 0% to 6%, with final payments due December 2009 through May 2019. These notes are collateralized primarily by second or third mortgages on real estate and liens on machinery, fixtures, appliances, equipment, and leasehold improvements.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Future maturities of AEDC's revolving loan program receivables at June 30, 2010 are as follows:

<u>Year Ending</u>	<u>Total</u>
2011	\$ 68,505
2012	86,748
2013	72,510
2014	56,542
2015	37,547
Thereafter	180,384
Total	<u>\$ 502,236</u>

AEDC – Mortgages Receivable

Enterprise Zone loans secured by second mortgage on property or first lien security interest on equipment. Payable in 60-120 monthly installments of principal and interest ranging from 3%-5% with final payments due thru December 2018.

\$ 545,736

Corporate Plaza Associates Limited Partnership; land; 18-36 North Seventh Street, Allentown, PA; \$200,000 second mortgage note bears no interest and is due upon sale of the property principal.

200,000

745,736

Current maturities

83,742

\$ 661,994

Future maturities of AEDC mortgage receivables as of June 30, 2010 are as follows:

<u>Year Ending</u>	<u>Total</u>
2011	\$ 83,742
2012	71,620
2013	72,563
2014	75,890
2015	56,859
Thereafter	385,062
Total	<u>\$ 745,736</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

The U.S. Department of Housing and Urban Development (HUD) has made several grants available to the City for economic development under terms of the Urban Development Action Grant Agreement. AEDC, acting as agent for the City, lends the grant proceeds to the project developer for construction. AEDC receives a promissory note and second mortgage on the project. An amount equal to the receivable is recorded as a liability and is classified as deferred support. Based on an agreement with the City, as repayments are received, an equal amount of deferred support is recognized as restricted funding in the year of repayment.

The Commonwealth of Pennsylvania has made available a Competitive Grant Loan Program, which is an Enterprise Zone incentive, whereby the City may make application to the state for a grant to be subsequently passed through an existing agreement to AEDC, which in turn lends the proceeds to the qualifying business; repayments will accumulate in a revolving loan fund administered by AEDC, available for additional Enterprise Zone projects. Ten area companies have outstanding secondary loans from this fund at June 30, 2010.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

5. CAPITAL ASSETS

Activity in the capital assets for the year ended December 31, 2010 is as follows:

	<u>January 1, 2010</u>	<u>Additions/ Transfers In</u>	<u>Disposals/ Transfers Out</u>	<u>December 31, 2010</u>
Government Activities:				
Capital assets not being depreciated:				
Land	\$ 8,409,945	\$ -	\$ -	\$ 8,409,945
Property held for development	689,700	-	-	689,700
Art	95,166	-	-	95,166
Construction in progress	<u>15,342,638</u>	<u>9,186,120</u>	<u>(8,640,039)</u>	<u>15,888,719</u>
Total capital assets not being depreciated	<u>24,537,449</u>	<u>9,186,120</u>	<u>(8,640,039)</u>	<u>25,083,530</u>
Capital assets being depreciated:				
Buildings	22,892,925	1,063,578	-	23,956,503
Land and building improvements	21,189,600	2,200,439	-	23,390,039
Machinery and equipment	17,616,814	5,773,901	(20,515)	23,370,200
Vehicles	16,476,922	542,612	(1,171,680)	15,847,854
Infrastructure	<u>63,162,199</u>	<u>51,072</u>	<u>-</u>	<u>63,213,271</u>
Total capital assets being depreciated	<u>141,338,460</u>	<u>9,631,602</u>	<u>(1,192,195)</u>	<u>149,777,867</u>
Less accumulated depreciation for:				
Buildings	16,277,204	595,420	-	16,872,624
Land and building improvements	10,917,840	903,510	-	11,821,350
Machinery and equipment	12,581,340	944,296	(2,956)	13,522,680
Vehicles	12,708,811	717,253	(1,171,680)	12,254,384
Infrastructure	<u>28,399,428</u>	<u>913,101</u>	<u>-</u>	<u>29,312,529</u>
Total accumulated depreciation	<u>80,884,623</u>	<u>4,073,580</u>	<u>(1,174,636)</u>	<u>83,783,567</u>
Total capital assets being depreciated, net	<u>60,453,837</u>	<u>5,558,022</u>	<u>(17,559)</u>	<u>65,994,300</u>
Governmental activities capital assets, net	<u>\$ 84,991,286</u>	<u>\$ 14,744,142</u>	<u>\$ (8,657,598)</u>	<u>\$ 91,077,830</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

	January 1, 2010	Additions/ Transfers In	Disposals/ Transfers Out	December 31, 2010
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,759,049	\$ -	\$ -	\$ 3,759,049
Construction in progress	1,746,877	498,959	(1,428,518)	817,318
Total capital assets not being depreciated	5,505,926	498,959	(1,428,518)	4,576,367
Capital assets being depreciated:				
Buildings	41,853,098	24,312	(8,207)	41,869,203
Land and building improvements	24,416,290	921,159	-	25,337,449
Machinery and equipment	35,392,355	813,541	-	36,205,896
Vehicles	7,622,445	271,152	(45,237)	7,848,360
Distribution and collection systems	52,067,422	173,791	(116,855)	52,124,358
Total capital assets being depreciated	161,351,610	2,203,955	(170,299)	163,385,266
Less accumulated depreciation for:				
Buildings	23,490,961	1,103,558	-	24,594,519
Land and building improvements	8,844,363	655,202	-	9,499,565
Machinery and equipment	24,291,119	1,754,720	-	26,045,839
Vehicles	6,075,000	292,729	(45,237)	6,322,492
Distribution and collection systems	14,103,027	540,004	(7,215)	14,635,816
Total accumulated depreciation	76,804,470	4,346,213	(52,452)	81,098,231
Total capital assets being depreciated, net	84,547,140	(2,142,258)	(117,847)	82,287,035
Business-type activities capital assets, net	\$ 90,053,066	\$ (1,643,299)	\$ (1,546,365)	\$ 86,863,402

Depreciation expense was charged to governmental activities as follows:

General government	\$ 493,516
Public safety	1,032,880
Public works	1,932,576
Health	67,361
Parks and recreation	492,000
Community development and planning	55,247
Total	\$ 4,073,580

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Component Units' Capital Assets

Parking Authority

Activity in the Parking Authority's capital assets for the year ended December 31, 2010 is as follows:

	<u>January 1, 2010</u>	<u>Additions/ Transfers In</u>	<u>Disposals/ Transfers Out</u>	<u>December 31, 2010</u>
Parking Authority:				
Capital assets not being depreciated:				
Land	\$ 8,672,942	\$ -	\$ (177,694)	\$ 8,495,248
Construction in progress	<u>521,134</u>	<u>-</u>	<u>(521,134)</u>	<u>-</u>
Total capital assets not being depreciated	<u>9,194,076</u>	<u>-</u>	<u>(698,828)</u>	<u>8,495,248</u>
Capital assets being depreciated:				
Land and building improvements	43,304,216	1,851,246	(980,498)	44,174,964
Vehicles	<u>1,477,348</u>	<u>26,407</u>	<u>-</u>	<u>1,503,755</u>
Total capital assets being depreciated	44,781,564	1,877,653	(980,498)	45,678,719
Less accumulated depreciation	<u>9,964,113</u>	<u>1,583,154</u>	<u>(833,278)</u>	<u>10,713,989</u>
Total capital assets being depreciated, net	<u>34,817,451</u>	<u>294,499</u>	<u>(147,220)</u>	<u>34,964,730</u>
Parking Authority capital assets, net	<u><u>\$ 44,011,527</u></u>	<u><u>\$ 294,499</u></u>	<u><u>\$ (846,048)</u></u>	<u><u>\$ 43,459,978</u></u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

6. INTERFUND RECEIVABLE AND PAYABLE BALANCES

The composition of interfund balances as of December 31, 2010 is as follows:

Receivable Fund	Payable Fund	Purpose for Balance	Amount
General	Trexler	Short-term loan/negative cash	\$ 209,832
	CDBG	Cash advance for AP	368,849
	E-911	Cash advance for AP	12,896
	Capital	Short-term loan/negative cash	<u>2,267,438</u>
			<u>2,859,015</u>
Capital Projects	General	Grant match	124,436
	Water	Short-term borrowing	2,280,055
	E-911	Capital project expenditures	<u>678,574</u>
			<u>3,083,065</u>
Sewer	Capital	Short-term borrowing	<u>1,003,667</u>
			<u>\$ 6,945,747</u>

Interfund balances represent short-term borrowing between funds.

7. INDIVIDUAL FUND INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2010 consisted of the following:

	Transfer in:				Total
	General Fund	Debt Service Fund	Capital Projects	E-911 Fund	
Transfer out:					
General	\$ -	\$ 6,946,729	\$ -	\$ 350,000	\$ 7,296,729
Community Development					
Block Grant	411,004	8,731	-	-	419,735
Capital Projects	60,694	-	-	-	60,694
Trexler	18,900	-	51,025	-	69,925
E-911	29,597	8,731	-	-	38,328
Water	2,027,732	-	-	-	2,027,732
Sewer	1,813,398	17,462	-	-	1,830,860
Municipal Golf Course	278,441	106,480	-	-	384,921
Solid Waste	569,603	-	-	-	569,603
Internal Service	50,716	-	-	-	50,716
	<u>\$ 5,260,085</u>	<u>\$ 7,088,133</u>	<u>\$ 51,025</u>	<u>\$ 350,000</u>	<u>\$ 12,749,243</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

The majority of interfund transfers were for recurring annual transfers. Transfers totaling \$4,567,202 were made to the General Fund for reimbursement of services rendered by the General Fund for other operating funds. A transfer totaling \$51,025 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.

8. 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 Policemen, Firemen, and Officers and Employees Retirement Boards. All full-time City employees hired prior to June 9, 1976 are eligible to participate in these Plans. The City's three single-employer pension plans do not issue separate financial statements.

The City also participates in a pension plan administered by the Pennsylvania Municipal Retirement System (PMRS). The full-time non-uniformed City employees hired after June 8, 1976 are eligible to participate in the PMRS Plan. PMRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR), which may be obtained by writing to the Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968. Benefits and refunds of the Plans are recognized when due and payable with the terms of each Plan. The following is a statement of fiduciary net assets and a statement of changes in fiduciary net assets for the City's three single-employer defined benefit plans:

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF NET ASSETS

DECEMBER 31, 2010

	<u>Officers and Employees Pension Fund</u>	<u>Policemen's Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Total Pension Trust Funds</u>
Statement of Plan Net Assets				
Assets:				
Interest receivable	\$ 1	\$ 8	\$ 5	\$ 14
Other receivables	637	23,617	108,102	132,356
Investments, at fair value	<u>16,088,077</u>	<u>58,757,638</u>	<u>40,606,959</u>	<u>115,452,674</u>
Total Assets	<u>16,088,715</u>	<u>58,781,263</u>	<u>40,715,066</u>	<u>115,585,044</u>
Net Assets:				
Held in trust for pension benefits	<u>\$ 16,088,715</u>	<u>\$ 58,781,263</u>	<u>\$ 40,715,066</u>	<u>\$115,585,044</u>
Statement of Changes in Plan Net Assets				
Additions:				
Contributions:				
Employer	\$ 343,531	\$ 5,726,720	\$ 3,133,439	\$ 9,203,690
Plan members	<u>21,550</u>	<u>673,709</u>	<u>609,537</u>	<u>1,304,796</u>
Total contributions	<u>365,081</u>	<u>6,400,429</u>	<u>3,742,976</u>	<u>10,508,486</u>
Investment income:				
Net appreciation in fair value of investments	1,589,682	5,103,207	3,589,125	10,282,014
Interest and dividends	354,451	1,174,738	875,954	2,405,143
Less investment expenses	<u>(17,444)</u>	<u>(59,840)</u>	<u>(37,380)</u>	<u>(114,664)</u>
Net investment income	<u>1,926,689</u>	<u>6,218,105</u>	<u>4,427,699</u>	<u>12,572,493</u>
Other income, miscellaneous	<u>1,610</u>	<u>6,552</u>	<u>1,729</u>	<u>9,891</u>
Total additions	<u>2,293,380</u>	<u>12,625,086</u>	<u>8,172,404</u>	<u>23,090,870</u>
Deductions:				
Benefits paid to recipients	2,683,965	9,137,988	5,112,346	16,934,299
Administrative and other fees	<u>3,601</u>	<u>10,835</u>	<u>7,896</u>	<u>22,332</u>
Total deductions	<u>2,687,566</u>	<u>9,148,823</u>	<u>5,120,242</u>	<u>16,956,631</u>
Increase in net assets	(394,186)	3,476,263	3,052,162	6,134,239
Net assets held in trust for pension benefits:				
Beginning of year	<u>16,482,901</u>	<u>55,305,000</u>	<u>37,662,904</u>	<u>109,450,805</u>
End of year	<u>\$ 16,088,715</u>	<u>\$ 58,781,263</u>	<u>\$ 40,715,066</u>	<u>\$ 115,585,044</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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, 2010 and at December 31, 2010 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.

	<u>Officers and Employees</u>	<u>Police</u>	<u>Firemen</u>	<u>PMRS</u>
	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
Covered Employees				
Number of active plan members	7	176	141	512
Number of retirees and beneficiaries receiving benefits	219	298	180	263
Terminated employees entitled to deferred benefits	-	-	-	20

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

the Plans' annual actuarial valuation. The most recent valuation for all of the City's Plans was completed as of January 1, 2010. The MMO includes the normal cost, estimated 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 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.

Policemen and Firemen are required to contribute 5% of covered payroll to their respective pension plans. The Officers and Employees Plan requires 3.5% of covered payroll for single coverage. The PMRS Plan requires contributions of 7.5% from plan participants. These contributions are governed by the Plans' governing ordinances and collective bargaining agreements. Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plans and funded through the MMO and/or investment earnings.

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

	<u>Officers and Employees</u>	<u>Police</u>	<u>Firemen</u>
Annual required contribution (MMO)	\$ 343,531	\$ 5,726,720	\$ 3,133,439
Interest on net pension asset	(2,387)	(39,001)	(23,363)
Adjustment to annual required contribution	2,814	45,976	27,541
Annual pension cost	<u>343,958</u>	<u>5,733,695</u>	<u>3,137,617</u>
Contributions made	<u>343,531</u>	<u>5,726,720</u>	<u>3,133,439</u>
(Increase) decrease in net pension asset	427	6,975	4,178
Net pension (asset), beginning of year	<u>(29,836)</u>	<u>(487,512)</u>	<u>(292,035)</u>
Net pension (asset), end of year	<u><u>\$ (29,409)</u></u>	<u><u>\$ (480,537)</u></u>	<u><u>\$ (287,857)</u></u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

	Three-Year Trend Information			
	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
	Officers and Employees	12/31/08	\$ 356,156	99.8%
	12/31/09	451,486	99.9%	29,836
	12/31/10	343,958	99.9%	29,409
Police	12/31/08	6,037,275	99.8%	494,588
	12/31/09	7,122,571	99.9%	487,512
	12/31/10	5,733,695	99.9%	480,537
Firemen	12/31/08	3,114,263	99.7%	273,658
	12/31/09	3,569,299	100.5%	292,035
	12/31/10	3,137,617	99.9%	287,857
Pennsylvania Municipal Retirement Plan	12/31/08	1,374,389	100.0%	-
	12/31/09	1,217,945	100.0%	-
	12/31/10	1,186,454	100.0%	-

The annual required contribution for each of the Plans for the current year was determined as part of the January 1, 2007 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) investment rate of return of 8% for the three City Plans and 6% for the State (PMRS) Plan, and (b) projected salary increases of 5% per year for the Police and Officers and Employees Plans, 3.4% for 2009 to 2011 and 5% after 2011 for the Firemen Plan, and 5.2% for the PMRS Plan. The actuarial value of assets was based on market value plus end of year accrual adjustments, if any. The PMRS Plan's actuarial accrued liability was fully funded at January 1, 2009.

Investments That Represent Five Percent or More of Plan Net Assets

At December 31, 2010, none of the Plans had investments in any one organization which represented five percent or more of the plan net assets.

Unfunded Actuarial Liability

The City's unfunded actuarial accrued liability is being amortized as a level dollar of projected payroll on a closed basis. The remaining amortization period is 10.92 years for the

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Officers and Employees Plan, 15.12 years for the Police Plan and 16.23 years for the Firemen Plan.

Funded Status and Funding Progress:

The funded status of the City's pension funds as of January 1, 2010 (as of January 1, 2009 for PMRS), the most recent actuarial valuation date, 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	\$ 18,745,413	\$ 22,356,710	\$ 3,611,297	83.85%	\$ 386,999	933.15%
Police Pension Fund Plan	\$ 63,645,665	\$ 138,286,771	\$ 74,641,106	46.02%	\$ 13,001,025	574.12%
Firemen Pension Fund Plan	\$ 43,397,737	\$ 83,711,449	\$ 40,313,712	51.84%	\$ 10,179,600	396.02%
Pennsylvania Municipal Retirement System Plan	\$ 115,563,078	\$ 100,741,210	\$ (14,821,868)	114.71%	\$ 27,337,110	-54.22%

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.

The Firemen Plan was amended to provide benefits to same-sex domestic partners and to permit all participants who become disabled in the line of duty with less than 20 years of service to receive a benefit of 50.5% of final pensionable pay. These plan changes will be reflected in the January 1, 2011 valuation.

The Police Plan was amended to provide benefits to same-sex domestic partners and to permit all participants who become disabled in the line of duty with less than 10 years of service to receive a benefit of 50.5% of final pensionable pay. These plan changes will be reflected in the January 1, 2011 valuation.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Discretely Presented Component Units' Pension Plan

Parking Authority

The Allentown Parking Authority Union Employees' Defined Contribution Retirement Plan is designed to provide retirement benefit to the Authority's eligible union employees. The plan covers all eligible employees over the age of 19 with one year of service with the 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, 2010. 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.

9. 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, 2010 was as follows:

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Notes and Bonds	Balance Outstanding January 1, 2010 (Restated)	Additions	Reductions	Balance Outstanding December 31, 2010	Current Portion
1993 General Obligation Bonds, 5.65% interest, due in 2010	\$ 165,000	\$ -	\$ 165,000	\$ -	\$ -
1993 General Obligation Refunding Bonds, 5.65% interest, due in 2010	785,000	-	785,000	-	-
2001 General Obligation Bond, 2.25% to 5.00% interest, serial portion payable in varying annual installments of \$385,000 in 2011 to \$290,000 in 2021	4,005,000	-	370,000	3,635,000	385,000
2003 General Obligation Bond, 4.00% to 5.50% interest, serial portion payable in annual installments of \$605,000 in 2012 to \$725,000 in 2022	6,555,000	-	-	6,555,000	-
2004 Federally Taxable General Obligation Refunding Pension Bond, 3.18% to 5.25% interest, serial portion payable in increasing annual installments of \$770,000 in 2011 to \$2,260,000 in 2034	31,325,000	-	-	31,325,000	770,000
2004 Federally Taxable General Obligation Refunding Bond, 3.18% to 4.44% interest, serial portion payable in increasing annual installments of \$85,000 in 2011 to \$695,000 in 2014	1,260,000	-	10,000	1,250,000	85,000
2004 Tax-Exempt General Obligation Bond, 4.00% to 5.00% interest, serial portion payable in increasing annual installments of \$280,000 in 2011 to \$490,000 in 2024	5,570,000	-	270,000	5,300,000	280,000
2006 Note, 3.85% interest, varying principal annual payments of \$634,000 in 2011 to \$716,000 in 2014	1,324,800	-	244,400	1,080,400	253,600

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Notes and Bonds	Balance Outstanding January 1, 2010 (Restated)	Additions	Reductions	Balance Outstanding December 31, 2010	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 \$138,500 in 2011 to \$917,578 in 2031	9,635,868	-	131,000	9,504,868	138,500
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	16,913,546	1,175,232	-	18,088,778	-
2007 Taxable General Obligation Note, 5.62% to 5.87% payable in varying annual installments of \$35,000 in 2011 to \$45,000 in 2021	7,955,000	-	35,000	7,920,000	35,000
2008 Taxable General Obligation Bond, 3.00% to 3.7% payable in varying annual installments of \$1,045,000 in 2011 to \$315,000 in 2018	6,005,000	-	860,000	5,145,000	1,045,000
2009 Tax-Exempt General Obligation Bond, 4.13% interest, serial portion payable in increasing annual installments of \$272,000 in 2011 to \$465,000 in 2024	5,310,000	-	261,000	5,049,000	272,000
Total Governmental Activities Notes and Bonds	96,809,214	1,175,232	3,131,400	94,853,046	3,264,100
Discount on bond issuance	1,025,095	-	65,559	959,536	-
Total	<u>\$ 97,834,309</u>	<u>\$ 1,175,232</u>	<u>\$ 3,196,959</u>	<u>\$ 95,812,582</u>	<u>\$ 3,264,100</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Long-term debt activity of the City's business-type activities for the year ended December 31, 2010 was as follows:

Notes and Bonds				Balance Outstanding January 1, 2010	Additions	Reductions	Balance Outstanding December 31, 2010	Current Portion
1993	Guaranteed	Water	Revenue	\$ 400,000	\$ -	\$ 400,000	\$ -	\$ -
	Bonds, 5.65% interest							
1993	Guaranteed	Water	Revenue	170,000	-	170,000	-	-
	Refunding Bonds, interest		5.65%					
1993	Guaranteed	Water	Revenue	330,000	-	330,000	-	-
	Bonds, 5.65% interest							
2001	Guaranteed	Water	Revenue	6,945,000	-	940,000	6,005,000	975,000
	Bonds, 4.50% to 5.50% interest, serial portion payable in varying annual installments of \$975,000 in 2011 to \$110,000 in 2021							
2001	Guaranteed	Sewer	Revenue	1,275,000	-	85,000	1,190,000	85,000
	Bonds, 4.10% to 5.00% interest, serial portion payable in increasing annual installments of \$85,000 in 2011 to \$135,000 in 2021							
2003	Guaranteed	Water	Revenue	920,000	-	80,000	840,000	80,000
	Refunding Bonds, 3.35% to 4.375% interest, serial portion payable in varying annual installments of \$80,000 in 2011 to \$110,000 in 2019							
2003	Guaranteed	Sewer	Revenue	3,905,000	-	305,000	3,600,000	315,000
	Refunding Bonds, 3.35% to 4.40% interest, serial portion payable in increasing annual installments of \$315,000 in 2011 to \$255,000 in 2020							
2004	Guaranteed	Water	Revenue	2,040,000	-	130,000	1,910,000	135,000
	Bonds, 2.75% to 4.40% interest, serial portion payable in varying annual installments of \$135,000 in 2011 to \$95,000 in 2024							

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

	Notes and Bonds	Balance Outstanding January 1, 2010	Additions	Reductions	Balance Outstanding December 31, 2010	Current Portion
2004	Guaranteed Sewer Revenue Bonds, 2.75% to 4.00% interest, serial portion payable in increasing annual installments of \$25,000 in 2011 to \$35,000 in 2018	260,000	-	25,000	235,000	25,000
2006	Water Note, 3.85% interest, varying principal annual payments of \$380,400 in 2011 to \$429,600 in 2014	1,987,200	-	366,600	1,620,600	380,400
2008	Guaranteed Water Revenue Bonds, 3.00% to 3.70% interest, varying principal annual payments of \$820,000 in 2011 to \$30,000 in 2018	3,370,000	-	390,000	2,980,000	820,000
2008	Guaranteed Sewer Revenue Bonds, 3.00% to 3.70% interest, varying principal annual payments of \$840,000 in 2011 to \$490,000 in 2018	5,285,000	-	485,000	4,800,000	840,000
	Total	<u>\$ 26,887,200</u>	<u>\$ -</u>	<u>\$ 3,706,600</u>	<u>\$ 23,180,600</u>	<u>\$ 3,655,400</u>

Debt service requirements to maturity, including interest of \$97,040,796, are as follows:

Year Ending	Governmental Activities	Business-type Activities	Total
2011	\$ 7,070,408	\$ 4,578,565	\$ 11,648,973
2012	7,066,974	4,582,783	11,649,757
2013	7,068,861	4,293,775	11,362,636
2014	7,068,406	3,405,699	10,474,105
2015	7,514,641	2,986,545	10,501,186
2016-2020	37,529,684	6,763,528	44,293,212
2021-2025	37,062,649	662,677	37,725,326
2026-2030	35,182,192	-	35,182,192
2031-2035	35,197,055	-	35,197,055
2036	7,040,000	-	7,040,000
Total	<u>\$ 187,800,870</u>	<u>\$ 27,273,572</u>	<u>\$ 215,074,442</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Defeasance of Debt

In prior years, the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements.

At December 31, 2010, \$15,605,000 of general obligation bonds, \$2,865,000 of water revenue bonds and \$4,550,000 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, 2010 (Restated)	Additions	Reductions	Balance December 31, 2010	Current Portion
Compensated absences:					
Governmental activities	\$ 2,392,591	\$ 3,808,973	\$ 3,600,462	\$ 2,601,102	\$ 2,106,892
Business-type activities	765,951	888,643	885,519	769,075	584,496
Total accrued vacation	<u>\$ 3,158,542</u>	<u>\$ 4,697,616</u>	<u>\$ 4,485,981</u>	<u>\$ 3,370,177</u>	<u>\$ 2,691,388</u>
Capital leases:					
Governmental activities	\$ 1,446,353	\$ 258,976	\$ 485,334	\$ 1,219,995	\$ 313,808
Business-type activities	775,575	-	538,090	237,485	216,887
Total capital leases	<u>\$ 2,221,928</u>	<u>\$ 258,976</u>	<u>\$ 1,023,424</u>	<u>\$ 1,457,480</u>	<u>\$ 530,695</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	\$ 3,611,613	\$ 3,109,717
Less accumulated depreciation	<u>1,575,041</u>	<u>2,192,007</u>
	<u>\$ 2,036,572</u>	<u>\$ 917,710</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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>
2011	\$ 360,197	\$ 224,570	\$ 584,767
2012	288,367	22,271	310,638
2013	147,534	-	147,534
2014	147,534	-	147,534
2015	147,534	-	147,534
2016 and thereafter	295,068	-	295,068
	<u>1,386,234</u>	<u>246,841</u>	<u>1,633,075</u>
Less interest	<u>166,239</u>	<u>9,356</u>	<u>175,595</u>
Total	<u>\$ 1,219,995</u>	<u>\$ 237,485</u>	<u>\$ 1,457,480</u>

Discretely Presented Component Units' Long-Term Debt:

Authority

The Authority has an \$800,000 note payable due June 30, 2011 with a private development company at a rate of 6.00% to purchase a property that was extended by mutual consent of the Authority and the private developer.

The Authority entered into a Memorandum of Understanding with AEDC in which the Authority borrowed \$45,000 to pay for additional expenses related to the purchase of a property. This is an interest-free loan with no defined payback term.

The Authority has a \$400,000 line of credit secured by a mortgage on a property with a bank at the Wall Street Journal prime rate, with no less than a floor rate of 4.5% (4.5% at December 31, 2010), none of which was in use at December 31, 2010. The line of credit is to be used for rehabilitation of a property. The line of credit expires on September 30, 2011. Proceeds from the sale of the property will be used to pay off the line of credit.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

AEDC

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2010	Current Portion
<p>Note payable to PA Minority Business Development Authority; payable interest only at 1.50% in semiannual installments of \$2,250; principal balance due at maturity in January 2012; proceeds used to establish a revolving loan fund to stimulate creation, retention, and expansion of minority-owned businesses; two loans have been issued to area companies at June 30, 2010</p>	\$ 300,000	\$ -	\$ -	\$ 300,000	\$ -
<p>Mortgage payable to National Penn Bank for the construction of an 87,500 square foot building; secured by a shared first mortgage lien on the propert located at 601 South 10th Street; extension granted subsequent to June 30, 2010 due in August 2011</p>	807,147	-	-	807,147	-
<p>Mortgage payable to Commonwealth Financing Authority for South 10th Street project, secured by shared first lien with bank on tract of land at Bridgeworks. Upon sale of any portion, proceeds shall be applied to reduce principal amount of loan. Based on the sale of the related asset in 2009, AEDC used the proceeds to pay the balance of this loan in September 2009</p>	5,388	-	5,388	-	-

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

	Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010	Current Portion
Mortgage payable to Merrill Lynch Mortgage Trust (originated with Countrywide Commercial Real Estate Finance, Inc.); secured by land and buildings of Bridgeworks Industrial Center; payable for a 10-year term with 15-year amortization in monthly installments of \$25,237, including payment of principal and interest at 5.78% fixed, ballooning in June 2015; additional monthly payment of \$14,122 is required to fund escrow accounts subject to specified withdrawal conditions; AEDC is required to comply with certain continuing loan provisions	3,693,095	-	88,762	3,604,333	94,105
	<u>\$ 4,805,630</u>	<u>\$ -</u>	<u>\$ 94,150</u>	<u>\$ 4,711,480</u>	<u>\$ 94,105</u>

AEDC maintains an unsecured line of credit with a bank on which it may borrow up to \$220,000. The outstanding balance accrued interest at the Wall Street Journal prime rate plus .75%. This line of credit is payable on demand and expired in September 2010.

Subsequent to June 30, 2010, this line of credit was renewed through September 2011 and the interest rate applied was changed to the Wall Street Journal prime rate plus .75% with a floor of 5%.

Debt service requirements to maturity, including interest of \$1,168,199, are as follows for AEDC:

Year Ending	Total
2011	\$ 310,322
2012	1,413,086
2013	302,842
2014	302,842
2015	301,041
2016-2020	3,249,546
Total	<u>\$ 5,879,679</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Parking Authority

At December 31, 2010, the long-term debt of the Parking Authority consisted of the following:

	Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010	Current Portion
2003 Guaranteed Parking Revenue Bonds, 3.25% to 3.90% interest serial portion payable in increasing annual installments of \$295,000 in 2011 to \$355,000 in 2016	\$ 2,245,000	\$ -	\$ 290,000	\$ 1,955,000	\$ 295,000
2004 Guaranteed Parking Revenue Refunding Bonds, 3.125% to 3.50% interest, serial portion payable in increasing annual installments of \$650,000 in 2011 to \$695,000 in 2013	2,645,000	-	630,000	2,015,000	650,000
2005 Guaranteed Parking Revenue Bonds, 3.5% to 5.00% interest, serial portion payable in increasing annual installments of \$260,000 in 2011 to \$730,000 in 2035	11,345,000	-	245,000	11,100,000	260,000
2007 Parking Revenue Bond, 4.20%, serial portion payable in increasing annual installments of \$80,000 in 2011 to \$275,000 in 2031	3,500,000	-	70,000	3,430,000	80,000
2009 Parking Revenue Bond, total available \$1,200,000, payable in quarterly installments of principal and interest over a ten-year period ending June 30, 2020, 3.21% through June 30, 2015 when the interest rate will be reset to the five-year cost of funds plus 116 basis points for the remaining term of the bond, interest is capped at 10%	304,606	792,805	43,458	1,053,953	89,067
	20,039,606	792,805	1,278,458	19,553,953	1,374,067
Less unamortized deferred costs of refunding	237,878	-	40,886	196,992	40,886
	19,801,728	792,805	1,237,572	19,356,961	<u>\$ 1,333,181</u>
Deferred revenue	10,401,076	-	353,808	10,047,268	
OPEB liability	15,042	-	4,979	10,063	
	<u>\$ 10,416,118</u>	<u>\$ -</u>	<u>\$ 358,787</u>	<u>\$10,057,331</u>	

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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, 2010, the rate of this line is 3.5%.

Short-term debt activity for the year ended December 31, 2010 is as follows:

	Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010
Line of credit	\$ 340,853	\$ -	\$ -	\$ 340,853

The City guarantees the Parking Authority's 2003, 2004, and 2007 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 \$10,563,394, are as follows for the Parking Authority:

<u>Year Ending</u>	<u>Total</u>
2011	\$ 2,199,894
2012	2,202,878
2013	2,205,643
2014	1,494,965
2015	1,501,897
2016-2020	6,073,378
2021-2025	5,126,439
2026-2030	5,197,043
2031-2035	4,115,210
Total	\$ 30,117,347

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

10. RISK MANAGEMENT, ACCRUED CLAIMS LIABILITY

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

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

	<u>2010</u>	<u>2009</u>
Accrued claims liability, January 1	\$ 1,592,767	\$ 2,244,630
Incurred claims, including estimated claims incurred by not reported as of December 31):		
Provision for current year events	2,646,222	1,399,866
Payments	<u>(2,036,400)</u>	<u>(2,051,729)</u>
Accrued claims liability, December 31	<u>\$ 2,202,589</u>	<u>\$ 1,592,767</u>
Current portion	<u>\$ 2,202,589</u>	<u>\$ 1,592,767</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, 2011.

11. OTHER POST-EMPLOYMENT BENEFITS (OPEBS)

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.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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 provide 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)	\$ 3,760,413
Interest on net OPEB obligation	156,730
Adjustment to annual required contribution	<u>(235,146)</u>
Annual OPEB cost	3,681,997
Contributions made	<u>2,123,959</u>
(Increase) decrease in net OPEB obligation	1,558,038
Net OPEB obligation, beginning of year	<u>3,918,257</u>
Net OPEB obligation, end of year	<u><u>\$ 5,476,295</u></u>

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2008	\$ 3,856,279	47%	\$ 2,046,279
12/31/2009	3,695,574	49%	3,918,257
12/31/2010	3,681,997	58%	5,476,295

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Funded status and funding progress:

The funded status of the plan as of January 1, 2010, the most recent actuarial valuation, was as follows:

<u>Actuarial Value of Assets</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded</u>	<u>Covered</u>	<u>Unfunded Actuarial Accrued Liability (Funding Excess) as a Percentage</u>
\$ -	\$ 50,225,539	0%	\$ 47,201,802	106%

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, 2010

Actuarial valuation date	January 1, 2010
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of pay, closed period
Remaining amortization period	28 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	4% per annum
Projected salary increases	3.5% per year due to inflation plus 1.5% due to merit
Healthcare inflation rate	Declining scale from a 12% increase in 2010, decreasing 2% per year to an 8% increase in 2012, followed by a 7% increase in 2013, then decreasing by 0.5% each year to a 5% increase for 2017 and later

12. 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, 2010 is as follows:

<u>Year Ending</u>	<u>Total</u>
2011	\$ 99,920
2012	99,920
2013	99,920
2014	99,920
2015	99,920
Thereafter	<u>7,600,901</u>
Total	<u>\$ 8,100,501</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

AEDC

AEDC leases general industrial space in its Bridgeworks buildings (Industrial Center and Incubator) under noncancellable operating leases requiring monthly payments with actual lease terms ending from June 2012 to October 2014 and from March 2010 to October 2012, respectively. Industrial Center rental income is derived from five tenants. A building purchased for development as an arts center is leased to a not-for-profit corporation for a term of 29 years with first option to purchase.

Future minimum rentals under leases at June 30, 2010, not including renewal actions, are as follows:

<u>Year Ending</u>	<u>Industrial Center</u>	<u>Incubator</u>	<u>Arts Center</u>	<u>Total</u>
2011	\$ 532,719	\$ 171,905	\$ 8,408	\$ 713,032
2012	572,399	101,981	8,408	682,788
2013	314,435	24,569	8,408	347,412
2014	258,265	-	8,408	266,673
2015	20,394	-	8,408	28,802
Total	<u>\$ 1,698,212</u>	<u>\$ 298,455</u>	<u>\$ 42,040</u>	<u>\$ 2,038,707</u>

AEDC has entered into a 25-year lease, commencing on April 7, 2009 in which they receive \$1 per year for the use of AEDC's land located at Lehigh Landing. For the year ended June 30, 2010 and based on an estimate of the fair value of the lease, AEDC recorded \$583,200 of contribution income and expense, related to this lease.

13. COMMITMENTS AND CONTINGENCIES

Construction

The City, through the Capital Projects Fund, entered into contracts with construction contractors with a remaining commitment at December 31, 2010 of \$4,879,712.

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

the grantor government. As of December 31, 2010, 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

The Authority has entered into an agreement for the rehabilitation of properties with a private developer totaling \$535,000 (523-525 N. 7th Street Project). Funding for this project is provided by a combination of state and local grants and draws on the Authority's line of credit. At December 31, 2010, the remaining commitment to be paid to the developer under the terms of the agreement is \$ 385,000.

The Authority has entered into an agreement for the rehabilitation of properties with a private developer totaling \$485,000 (402-406 N. 7th Street Project). The Authority has provided the financing for this project and has agreed to sell the rehabilitated properties to the developer. At December 31, 2010, the remaining commitment to be paid to the developer under the terms of the agreement is \$260,000.

AE DC

Lehigh Landing Riverfront Project

AE DC entered into an agreement with the City and Allentown Commercial and Industrial Development Authority (ACIDA) whereby the parties have agreed to purchase, manage, and maintain specific properties along the area known as the Riverfront in Allentown, Pennsylvania. In March 1992, ACIDA purchased and subsequently agreed to lease to the AE DC a building that is included in the project. The lease agreement has been accounted for as a capital acquisition.

AE DC has secured federal grant funding, through an agreement with Lehigh County and the City, of \$200,000 each, respectively, for the remediation and demolition of an approximately 30,000 square foot building, which is part of the Lehigh Riverfront Project and known as 97 N. Front St. The County and the City have also committed to providing loans up to \$290,000 and \$275,000, respectively, to support this project.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Downtown Projects

In June 2000, several properties on the 800 block of Hamilton Street were conveyed to ACIDA by the Parking Authority and the Authority as part of a site assembly for the Ninth and Hamilton Street Project. They were subsequently leased to AEDC and were held for development, which has been completed. A portion of the site was under grant of easement to PPL Energy Plus LLC for utilization in the development of their project. Of the properties on the 800 block of Hamilton Street, ACIDA now only owns 819 and 821 W. Hamilton Street.

In March 2001, ACIDA purchased and subsequently leased to AEDC a property at 612 Hamilton Street (former Schoen's Building). The lease agreement has been accounted for as a capital acquisition. In August 2004, AEDC purchased a property at 601 W. Hamilton Street (Musselman Building) utilizing a \$400,000 pass-through grant from the City - to serve as an arts development center. The building was subsequently leased to a nonprofit, arts-related corporation for a term of 29 years with first option to purchase; tenant pays a nominal monthly rent plus all operating costs (including real estate taxes) associated with the building.

During the fiscal year ended June 30, 2010, four properties were transferred to AEDC from the City and recorded as in-kind contributions with an approximate value of \$1,045,000. The contribution of these properties included the requirement that upon sale of each respective building, all sale proceeds would be returned to the City less a 5% fee to be retained by AEDC as a management fee. Management fees of \$2,100 were recognized as of June 30, 2010 for the sale of one of these buildings.

South 10th Street Project

ACIDA held a 7.66 acre parcel of land along South 10th Street in Allentown as part of the Bridgeworks Project. The Pennsylvania Department of Community and Economic Development awarded a Business In Our Sites grant in the amount of \$953,125 and a loan of \$953,125 for site remediation and site improvement. A \$4,200,000 loan was financed with National Penn Bank for construction. An 87,500 square foot industrial condominium building was completed in 2007. As of June 30, 2010, approximately 80% of the building has been sold.

14. RESTATEMENT OF NET ASSETS/FUND BALANCE

Governmental Funds and Governmental Activities

Derived tax revenues are to be reported as receivables when the underlying transaction has occurred. Revenues should only be recognized in governmental funds to the extent that they

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

are measurable and available. The City has defined available to mean collectible within 60 days after fiscal year-end. Revenues should be recognized when earned for Governmental Activities. The City has the following derived taxes: earned income, local services, and business privilege. However, at December 31, 2009, the City had not recorded the receivable, revenue, or deferred revenue related to outstanding receivables for these taxes. The effect of each tax on the General Fund and Governmental Activities is noted below.

It is the City's policy to record a receivable for reimbursement grants when the expenditures are incurred. However, at December 31, 2009, the City had not recorded a receivable related to expenditures incurred under a reimbursement grant in the Capital Projects Fund. The effect of the reimbursement grant on the Capital Projects Fund and Governmental Activities is noted below.

The City is required to report accretion on capital appreciation bonds annually for Governmental Activities. The City issued capital appreciation bonds in 2007. However, at December 31, 2009, accretion had not been reported on those bonds. The effect of the accretion on Governmental Activities is noted below.

Expenditures are to be reported in governmental funds only to the extent that they are due and payable. However, at December 31, 2009, the City reported a current portion of compensated absences in the General Fund. This amount was not due and payable. In addition, the City had not reported compensatory time that is paid upon termination as a liability in Governmental Activities at December 31, 2009. The effect of the compensated absence adjustments on the General Fund and Governmental Activities is noted below.

	<u>General</u>	<u>Capital Projects</u>	<u>Governmental Activities</u>
Fund balance/Net assets as of December 31, 2009 - as previously recorded	\$ 4,287,704	\$ 4,113,883	\$ 1,570,245
Earned income tax receivable/deferral adjustment	1,649,874	-	4,133,122
Local services tax receivable/deferral adjustment	277,231	-	584,239
Business privilege tax receivable/deferral adjustment	416,647	-	6,421,943
Grant receivable adjustment	-	920,000	920,000
Accretion on capital appreciation bonds adjustment	-	-	(2,139,563)
Compensated absence accrual adjustment	183,027	-	(420,541)
Fund balance/Net assets as of December 31, 2009 - restated	<u>\$ 6,814,483</u>	<u>\$ 5,033,883</u>	<u>\$ 11,069,445</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Enterprise Funds and Business-type Activities

Inventory of the pro shop had not been accounted for as an asset of the Municipal Golf Course Fund at December 31, 2009. The effect the inventory adjustment on the Municipal Golf Course Fund and Business-type Activities is noted below.

	<u>Municipal Golf Course</u>	<u>Business-Type Activities</u>
Net assets as of December 31, 2009 - as previously recorded	\$ 3,022,938	\$ 77,852,736
Inventory adjustment	<u>52,589</u>	<u>52,589</u>
Net assets as of December 31, 2009 - restated	<u>\$ 3,075,527</u>	<u>\$ 77,905,325</u>

15. SUBSEQUENT EVENTS

On May 4, 2011, the City issued General Obligation Bonds, Series of 2011, in the aggregate principal amount of \$11,610,000. The proceeds of the Bonds will be used to: (1) provide funds for various capital projects such as, but not limited to traffic signals, crosswalk upgrades, 19th Street area improvements, Sacred Heart area improvements, City Hall elevator replacement, 5th floor perimeter rail and lighting, Hanover Avenue safety improvements, roof replacement phases, encrypted police radio project, fire house renovations, 15th street corridor, residential street construction, ADA ramps, and related drainage improvements; (2) provide funds for new Capital Improvements to the Water System such as, but not limited to, centrifugally spun case iron water main pipe and mechanical renovations; (3) provide funds for new Capital Improvements to the Sewer System such as, but not limited to, Waste Water Treatment Plan, SCADA System expansion, wastewater treatment works security, SSES rehabilitation, and mechanical renovations WWT; and (4) pay the costs of issuing the Bonds.

Authority

In August 2011, the Authority Board approved a resolution based upon a proposal made by AEDC which would transfer certain properties of the Authority and the related debt to AEDC or ACIDA for amounts as noted in the resolution and the loan owed to AEDC would be forgiven. The resolution is contingent upon the approval of the Boards of both AEDC and ACIDA, and that the City will provide administrative operating funds to the Authority.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

AEDC

Subsequent to June 30, 2010, AEDC was awarded a conditional grant of \$1,400,000 from the National Rural Transit Assistance Program to reinstitute freight rail service to Allentown's South 10th Street industrial area. Receipt of the funds is contingent on the receipt of matching funds by April 2011.

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes:				
Real estate:				
Current	\$28,375,000	\$28,375,000	\$28,293,901	\$ (81,099)
Prior year	1,100,000	1,100,000	1,250,641	150,641
Lehigh County Tax Claims	25,000	25,000	-	(25,000)
Total real estate taxes	<u>29,500,000</u>	<u>29,500,000</u>	<u>29,544,542</u>	<u>44,542</u>
Act 511 taxes:				
Earned income	7,650,000	7,650,000	7,282,987	(367,013)
Residence per capita	225,000	225,000	184,072	(40,928)
Amusement devices	25,000	25,000	21,510	(3,490)
Deed transfer	1,150,000	1,150,000	961,856	(188,144)
Local services tax	2,875,000	2,875,000	1,746,724	(1,128,276)
Business privilege	6,300,000	6,300,000	6,516,355	216,355
Total Act 511 taxes	<u>18,225,000</u>	<u>18,225,000</u>	<u>16,713,504</u>	<u>(1,511,496)</u>
Total taxes	<u>47,725,000</u>	<u>47,725,000</u>	<u>46,258,046</u>	<u>(1,466,954)</u>
Licenses and permits:				
Business licenses	350,000	350,000	415,831	65,831
Billboard and sign permits/licenses	10,000	10,000	12,887	2,887
Building permits and licenses	525,000	525,000	594,803	69,803
Plumbing permits and licenses	155,000	155,000	115,226	(39,774)
Electrical permits and licenses	245,000	245,000	202,118	(42,882)
Sheet metal technician license	18,000	18,000	27,420	9,420
Liquor licenses	60,000	60,000	51,000	(9,000)
Health bureau permits and licenses	149,000	149,000	152,439	3,439
Rental inspection program	1,724,060	1,724,060	1,913,936	189,876
Zoning permits and fees	85,000	85,000	58,359	(26,641)
Fire department inspection fees	60,000	60,000	79,847	19,847
CATV franchise fees	1,000,000	1,000,000	1,112,777	112,777
Other permits and licenses	250,000	250,000	137,906	(112,094)
Total licenses and permits	<u>4,631,060</u>	<u>4,631,060</u>	<u>4,874,549</u>	<u>243,489</u>
Fines and forfeits:				
District court	350,000	350,000	343,630	(6,370)
Parking Authority reimbursement	100,000	100,000	949	(99,051)
Fines and restitution	185,000	185,000	155,755	(29,245)
Total fines and forfeits	<u>635,000</u>	<u>635,000</u>	<u>500,334</u>	<u>(134,666)</u>

(Continued)

See accompanying notes to required supplementary information.

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2010

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues (Continued):				
Intergovernmental revenue:				
Health grants Acts 315 and 12	804,000	804,000	841,847	37,847
Health categorical grants	1,346,000	1,486,000	1,471,356	(14,644)
Police/fire training	222,490	222,490	318,682	96,192
State aid for pension	3,619,538	3,619,538	3,695,259	75,721
Police grants/reimbursements	2,182,000	2,286,521	1,012,685	(1,273,836)
Forfeiture receipts	125,000	125,000	33,090	(91,910)
American Recovery & Reinvest Act	-	906,098	300,579	(605,519)
Casino fee	2,856,333	2,856,333	2,876,659	20,326
Other grants/miscellaneous	1,500,000	4,009,306	2,816,695	(1,192,611)
Total intergovernmental revenue	<u>12,655,361</u>	<u>16,315,286</u>	<u>13,366,852</u>	<u>(2,948,434)</u>
Charges for services				
Departmental earnings:				
Tax/municipal certifications	100,000	100,000	105,997	5,997
A.S.D. tax billing/reimbursement	60,000	60,000	-	(60,000)
Police extra duty jobs	572,000	572,000	543,421	(28,579)
Health bureau services	16,000	16,000	28,483	12,483
Street excavation/restoration	30,000	30,000	27,864	(2,136)
Printing and copier fees	100,000	100,000	90,040	(9,960)
Other charges for service	200,000	281,299	226,497	(54,802)
Vehicle towing agreement	198,000	198,000	214,500	16,500
EMS transit fees	3,200,000	3,200,000	3,185,990	(14,010)
Warrants of survey	12,000	12,000	8,743	(3,257)
Total departmental earnings	<u>4,488,000</u>	<u>4,569,299</u>	<u>4,431,535</u>	<u>(137,764)</u>
Municipal recreation:				
Swimming pool fees	145,000	145,000	180,217	35,217
Recreation fees	104,000	104,000	93,549	(10,451)
Total municipal recreation	<u>249,000</u>	<u>249,000</u>	<u>273,766</u>	<u>24,766</u>
General fund service charges:				
Water service charges	1,927,732	1,927,732	1,927,732	-
Sewer service charges	1,713,398	1,713,398	1,713,398	-
Other service charges	937,872	937,872	926,072	(11,800)
Total general fund service charges	<u>4,579,002</u>	<u>4,579,002</u>	<u>4,567,202</u>	<u>(11,800)</u>
Total charges for service	<u>9,316,002</u>	<u>9,397,301</u>	<u>9,272,503</u>	<u>(124,798)</u>
Investment income	<u>375,250</u>	<u>375,250</u>	<u>192,528</u>	<u>(182,722)</u>

(Continued)

See accompanying notes to required supplementary information.

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2010
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues (Continued):				
Other income:				
Rental of city property	150,000	150,000	156,114	6,114
Contributions	500,000	571,183	73,477	(497,706)
Damage to city property	60,000	60,000	28,073	(31,927)
Lights in parkway	110,000	110,000	133,633	23,633
Pennsylvania Utility Realty Tax	70,000	70,000	66,696	(3,304)
Allentown Housing Authority	125,000	125,000	49,358	(75,642)
Sale of city property	500,000	500,000	1,265,589	765,589
Marketing/advertising	50,000	50,000	-	(50,000)
City auction proceeds	100,000	100,000	125,102	25,102
Equipment fund transfer	798,366	798,366	798,366	-
Recreation/special events	19,000	19,000	4,620	(14,380)
Tax settlements	2,317,667	2,317,667	2,317,667	-
Miscellaneous	1,290,000	1,290,000	996,482	(293,518)
Total other income	6,090,033	6,161,216	6,015,177	(146,039)
Total revenues	81,427,706	85,240,113	80,479,989	(4,760,124)
Expenditures:				
General government:				
Nondepartmental:				
City Council	367,247	367,247	257,895	109,352
Office of the Mayor	346,509	346,509	342,025	4,484
City Controller	217,035	217,035	199,952	17,083
Law	552,150	552,150	551,833	317
General and civic	1,794,166	1,794,166	1,765,974	28,192
Total nondepartmental	3,277,107	3,277,107	3,117,679	159,428
Department of Finance	3,392,002	3,441,840	3,295,576	146,264
Total Department of Finance	3,392,002	3,441,840	3,295,576	146,264
Human Resources	485,154	535,154	497,654	37,500
Total Human Resources	485,154	535,154	497,654	37,500
Management Systems:				
Management Director and Information Services	1,666,765	1,645,064	1,398,096	246,968
Total Management Systems	1,666,765	1,645,064	1,398,096	246,968
Total general government	8,821,028	8,899,165	8,309,005	590,160

(Continued)

See accompanying notes to required supplementary information.

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2010

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures (Continued):				
Public safety:				
Department of Public Safety:				
Police	30,468,386	30,621,496	30,296,441	325,055
Fire	16,127,371	16,896,891	16,873,726	23,165
Communications	799,434	842,099	711,552	130,547
Total public safety	<u>47,395,191</u>	<u>48,360,486</u>	<u>47,881,719</u>	<u>478,767</u>
Public works:				
Department of Public Works:				
Director's office	110,142	150,499	93,317	57,182
Building maintenance	2,058,086	1,928,320	1,751,118	177,202
Fleet maintenance operation	2,962,192	2,942,192	2,870,509	71,683
Streets	1,892,189	1,884,717	1,796,938	87,779
Traffic planning and control	697,510	734,014	637,135	96,879
Street lighting	614,875	688,776	611,685	77,091
Total public works	<u>8,334,994</u>	<u>8,328,518</u>	<u>7,760,702</u>	<u>567,816</u>
Health and sanitation:				
Department of Community Development:				
Health	2,819,215	2,953,691	2,772,010	181,681
Total health and sanitation	<u>2,819,215</u>	<u>2,953,691</u>	<u>2,772,010</u>	<u>181,681</u>
Parks and recreation:				
Department of Community Development:				
Park maintenance	627,502	634,629	615,716	18,913
Recreation	561,301	542,106	507,618	34,488
Swimming pool operation	409,548	350,227	313,444	36,783
Total parks and recreation	<u>1,598,351</u>	<u>1,526,962</u>	<u>1,436,778</u>	<u>90,184</u>
Community development:				
Department of Community Development:				
Director's office	1,304,481	5,227,726	4,463,123	764,603
Planning and zoning	705,855	1,276,474	945,899	330,575
Building standards and safety	2,872,932	2,903,185	2,264,176	639,009
Total community development and planning	<u>4,883,268</u>	<u>9,407,385</u>	<u>7,673,198</u>	<u>1,734,187</u>
Capital outlays	<u>798,366</u>	<u>798,366</u>	<u>708,728</u>	<u>89,638</u>
Total capital outlays	<u>798,366</u>	<u>798,366</u>	<u>708,728</u>	<u>89,638</u>
Total expenditures	<u>74,650,413</u>	<u>80,274,573</u>	<u>76,542,140</u>	<u>3,732,433</u>

(Continued)

See accompanying notes to required supplementary information.

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2010

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Excess (Deficiency) of Revenues over Expenditures	6,777,293	4,965,540	3,937,849	(1,027,691)
Other Financing Sources (Uses):				
Transfers in:				
Homeland Security for water/sewer	200,000	200,000	200,000	-
CD Block Grant reimbursement	503,672	503,672	495,463	(8,209)
Transfers out:				
Debt Service Fund	(6,967,023)	(6,967,023)	(6,946,729)	20,294
E-911 Fund	(350,000)	(350,000)	(350,000)	-
Total other financing sources (uses)	(6,613,351)	(6,613,351)	(6,601,266)	12,085
Net Change in Fund Balance	\$ 163,942	\$ (1,647,811)	(2,663,417)	\$ (1,015,606)
Add back reservation for encumbrances			1,778,755	
Budgetary change in fund balance less encumbrances			(884,662)	
Net effect of agency fund, other income and expenditure accruals			(2,813,157)	
Net Change in Fund Balance			(3,697,819)	
Fund Balance (Deficit):				
Beginning of year, restated			6,814,483	
End of year			\$ 3,116,664	

(Concluded)

See accompanying notes to required supplementary information.

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - LIQUID FUELS FUND

YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental revenues:				
PA Liquid Fuels Tax	\$1,909,687	\$1,909,687	\$1,911,110	\$ 1,423
State aid for pension	11,146	11,146	13,437	2,291
Total intergovernmental revenues	<u>1,920,833</u>	<u>1,920,833</u>	<u>1,924,547</u>	<u>3,714</u>
Investment income	<u>20,000</u>	<u>20,000</u>	<u>22,692</u>	<u>2,692</u>
Other income:				
Miscellaneous	<u>5,000</u>	<u>5,000</u>	61,490	56,490
Total other income	<u>5,000</u>	<u>5,000</u>	<u>61,490</u>	<u>56,490</u>
Total revenues	<u>1,945,833</u>	<u>1,945,833</u>	<u>2,008,729</u>	<u>62,896</u>
Expenditures:				
Public works:				
Department of Public Works:				
Streets	<u>2,618,196</u>	<u>2,618,196</u>	<u>2,139,363</u>	<u>478,833</u>
Total public works	<u>2,618,196</u>	<u>2,618,196</u>	<u>2,139,363</u>	<u>478,833</u>
Total expenditures	<u>2,618,196</u>	<u>2,618,196</u>	<u>2,139,363</u>	<u>478,833</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(672,363)</u>	<u>(672,363)</u>	<u>(130,634)</u>	<u>541,729</u>
Net Change in Fund Balance	<u>\$ (672,363)</u>	<u>\$ (672,363)</u>	<u>(130,634)</u>	<u>\$ 541,729</u>
Add back reservation for encumbrances			30,626	
Net effect of other income and expenditure accruals			<u>(972)</u>	
Net Change in Fund Balance			<u>(100,980)</u>	
Fund Balance:				
Beginning of year			<u>1,034,480</u>	
End of year			<u>\$ 933,500</u>	

See accompanying notes to required supplementary information.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2010

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 on or before November 1 presents the proposed budgets to City Council. A series of public hearings and discussions occur related to the budgets and on or before December 15, City Council approves the budgets. At the time of the budget adoptions, City Council adopts various 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, 2010, 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)
1/1/2005	\$ 90,697,840	\$ 86,407,370	\$ (4,290,470)	104.97%	\$ 23,686,928	-18.11%
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%

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)
1/1/2007	\$ 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%

Policemen's Pension Fund Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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%

Firemen's Pension Fund Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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%

Other Post-Employment Benefit 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)
1/1/2008	\$ -	\$ 53,394,629	\$ 53,394,629	0.00%	\$ 47,322,646	112.83%
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%

CITY OF ALLENTOWN, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF EMPLOYER'S CONTRIBUTIONS

Year	Officers and Employees		Policemen		Firemen	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
	2005	\$ -	N/A	\$ 2,453,196	115%	\$ 815,563
2006	-	N/A	3,010,528	100%	1,241,367	100%
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%

Year	Pennsylvania Municipal Retirement System		Other Post-Employment Benefits	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
	2005	\$ 358,968	100%	
2006	446,843	100%		
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%

CITY OF ALLENTOWN, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION ACTUARIAL INFORMATION

	Policemen Pension Fund	Firemen Pension Fund	Officers and Employees Pension Fund	Other Post-Employment Benefits
Valuation date	January 1, 2010	January 1, 2010	January 1, 2010	January 1, 2010
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	15.12 years	16.23 years	10.92 years	28 years
Asset valuation method	*	*	*	N/A
Actuarial assumptions:				
Investment rate of return	8.00%	8.00%	8.00%	4.00%
Projected salary increases	5.00%	3.4% - 5.0%	5.00%	3.5% per year due to inflation, plus 1.5% due to merit

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

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF NET ASSETS COMPONENT UNITS

DECEMBER 31, 2010

	Allentown Redevelopment Authority	AEDC *	Allentown Parking Authority	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 61,919	\$ 1,415,774	\$ 685,421	\$ 2,163,114
Cash and cash equivalents - restricted	48,262	1,180,834	-	1,229,096
Investments	-	-	1,351,763	1,351,763
Accounts receivable	196,283	210,959	235,317	642,559
Accrued interest receivable	-	-	1,465	1,465
Inventory	-	-	17,215	17,215
Prepaid expenses	1,501	-	241,449	242,950
Notes receivable, current maturities	-	152,247	-	152,247
Total current assets	307,965	2,959,814	2,532,630	5,800,409
Noncurrent assets:				
Capital assets, net	3,242,307	25,115,810	43,459,978	71,818,095
Deferred charges, net	-	-	292,138	292,138
Loans and notes receivable	880,000	1,095,725	-	1,975,725
Other assets	-	53,799	-	53,799
Total noncurrent assets	4,122,307	26,265,334	43,752,116	74,139,757
Total Assets	4,430,272	29,225,148	46,284,746	79,940,166
Liabilities				
Current liabilities:				
Accounts payable	218,613	72,252	67,946	358,811
Line of credit	-	-	340,853	340,853
Accrued expenses	20,848	-	263,298	284,146
Bonds payable, current maturities	-	-	1,333,181	1,333,181
Mortgage and note payable, current maturities	845,000	94,105	-	939,105
Deferred revenue	-	-	356,959	356,959
Other current liabilities	14,935	91,266	74,841	181,042
Total current liabilities	1,099,396	257,623	2,437,078	3,794,097
Noncurrent liabilities:				
Deferred revenue	-	-	10,047,268	10,047,268
Mortgage and note payable	-	4,617,375	-	4,617,375
Other post-employment benefit liability	-	-	10,063	10,063
Bonds payable	-	-	18,023,780	18,023,780
Other	-	200,000	-	200,000
Total noncurrent liabilities	-	4,817,375	28,081,111	32,898,486
Total Liabilities	1,099,396	5,074,998	30,518,189	36,692,583
Net Assets				
Invested in capital assets, net of related debt	-	20,704,330	23,762,164	44,466,494
Restricted	912,684	1,967,889	-	2,880,573
Unrestricted (deficit)	2,418,192	1,477,931	(7,995,607)	(4,099,484)
Total Net Assets	\$ 3,330,876	\$ 24,150,150	\$ 15,766,557	\$ 43,247,583

* - As of June 30, 2010

CITY OF ALLENTOWN, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2010

	Allentown Redevelopment Authority	AEDC *	Allentown Parking Authority	Total
Operating Revenues:				
Charges for services:				
Parking fees	\$ -	\$ -	\$ 5,441,477	\$ 5,441,477
Rental income	-	1,439,983	-	1,439,983
Fees and service charges	-	444	-	444
Management fee income	-	47,497	-	47,497
Professional services	-	8,654	-	8,654
Contributions and grants	380,436	80,611	-	461,047
Other income	35,858	-	-	35,858
Intergovernmental revenue	2,409,225	270,708	-	2,679,933
Total operating revenues	<u>2,825,519</u>	<u>1,847,897</u>	<u>5,441,477</u>	<u>10,114,893</u>
Operating Expenses:				
Administrative services and related costs	-	471,547	-	471,547
Advertising, promotion, and marketing	-	17,154	-	17,154
Allowance for losses on properties held for development	1,281,477	-	-	1,281,477
Bad debt	-	1,214	-	1,214
City grant programs	-	113,653	-	113,653
City funding return to CDBG program	-	12,075	-	12,075
Contributions	-	626,120	-	626,120
Depreciation and amortization	-	273,201	1,608,960	1,882,161
Dues and subscriptions	-	2,770	-	2,770
Insurance	-	58,435	-	58,435
Loan packaging	-	1,891	-	1,891
Materials and supplies	-	-	58,645	58,645
Office supplies and related expenses	279	22,472	-	22,751
Professional fees	-	122,707	-	122,707
Program expenses	1,473,910	16,576	-	1,490,486
Real estate and other taxes	-	30,880	-	30,880
Rent	-	1,783	-	1,783
Repair, maintenance, and miscellaneous	-	126,257	-	126,257
Telephone and utilities	1,550	139,388	-	140,938
Trade associations	-	2,104	-	2,104
Training and professional development	-	5,655	-	5,655
Travel and meetings	-	9,433	-	9,433
Services and charges	-	-	791,368	791,368
Wages and benefits	164,925	-	2,289,283	2,454,208
Total operating expenses	<u>2,922,141</u>	<u>2,055,315</u>	<u>4,748,256</u>	<u>9,725,712</u>
Operating Income (Loss)	<u>(96,622)</u>	<u>(207,418)</u>	<u>693,221</u>	<u>389,181</u>

* - Year ended June 30, 2010

(Continued)

CITY OF ALLENTOWN, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - COMPONENT UNITS

YEAR ENDED DECEMBER 31, 2010
(Continued)

	Allentown Redevelopment Authority	AEDC *	Allentown Parking Authority	Total
Non-Operating Revenues (Expenses):				
Investment income	99	57,299	11,986	69,384
Interest expense	(12,000)	(221,091)	(903,565)	(1,136,656)
Loss on deposit on real estate	-	(110,000)	-	(110,000)
Loss on disposal of properties	(314,540)	-	-	(314,540)
Gain (loss) on disposal of capital assets	-	(155,841)	401,487	245,646
Miscellaneous	-	26,831	(62,782)	(35,951)
Total non-operating revenues (expenses)	(326,441)	(402,802)	(552,874)	(1,282,117)
Income (loss) before contributions	(423,063)	(610,220)	140,347	(892,936)
Capital contributions	-	1,045,183	250,000	1,295,183
Change in Net Assets	(423,063)	434,963	390,347	402,247
Net Assets:				
Beginning of year	3,753,939	23,715,187	15,376,210	42,845,336
End of year	<u>\$ 3,330,876</u>	<u>\$24,150,150</u>	<u>\$15,766,557</u>	<u>\$43,247,583</u>
* - Year ended June 30, 2010				(Concluded)

CITY OF ALLENTOWN, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE
BUDGETARY BASIS - CAPITAL PROJECTS AND DEBT SERVICE FUNDS
YEAR ENDED DECEMBER 31, 2010

	Capital Projects			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ -	\$ -	\$ 149,071	\$ 149,071
Intergovernmental revenues	-	3,257,517	3,332,269	74,752
Other	-	100,000	110,124	10,124
Total revenues	-	3,357,517	3,591,464	233,947
Expenditures:				
Current:				
General government	-	-	-	-
Capital outlay	34,511,437	37,925,849	16,426,672	21,499,177
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Total expenditures	34,511,437	37,925,849	16,426,672	21,499,177
Excess (Deficiency) of Revenues over Expenditures	(34,511,437)	(34,568,332)	(12,835,208)	21,733,124
Other Financing Sources (Uses):				
Transfers in	432,000	483,025	483,025	-
Total other financing sources (uses)	432,000	483,025	483,025	-
Net Change in Fund Balance	\$(34,079,437)	\$(34,085,307)	(12,352,183)	\$ 21,733,124
Add bank reservation for encumbrances - reimbursement grants			6,132,082	
Add back reservation for encumbrances - other			1,136,567	
Budgetary change in fund balance less encumbrances			(5,083,534)	
Net effect of other income and expenditure accruals			1,591,203	
Net Change in Fund Balance			(3,492,331)	
Fund Balance:				
Beginning of year			5,033,883	
End of year			<u>\$ 1,541,552</u>	

CITY OF ALLENTOWN, PENNSYLVANIA

COMBINING SCHEDULES OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS

YEAR ENDED DECEMBER 31, 2010

	Balance January 1, 2010	Additions	Deductions	Balance December 31, 2010
Earned Income Tax Escrow				
Assets:				
Cash and cash equivalents	\$ 2,144,783	\$ 660,279	\$ 2,007,170	\$ 797,892
Total assets	\$ 2,144,783	\$ 660,279	\$ 2,007,170	\$ 797,892
Liabilities:				
Due to other funds	\$ -	\$ 116,622	\$ 116,622	\$ -
Due to other governments	2,144,783	543,657	1,890,548	797,892
Total liabilities	\$ 2,144,783	\$ 660,279	\$ 2,007,170	\$ 797,892
Payroll Withholding Funds				
Assets:				
Cash and cash equivalents	\$ 1,538,972	\$ 16,077,333	\$ 16,467,548	\$ 1,148,757
Total assets	\$ 1,538,972	\$ 16,077,333	\$ 16,467,548	\$ 1,148,757
Liabilities:				
Payroll tax liability	\$ 1,538,972	\$ 16,070,432	\$ 16,460,647	\$ 1,148,757
Due to other funds	-	6,901	6,901	-
Total liabilities	\$ 1,538,972	\$ 16,077,333	\$ 16,467,548	\$ 1,148,757
Tax Collection Fund				
Assets:				
Cash and cash equivalents	\$ 3,754,375	\$ 79,800,069	\$ 81,032,643	\$ 2,521,801
Total assets	\$ 3,754,375	\$ 79,800,069	\$ 81,032,643	\$ 2,521,801
Liabilities:				
Due to other funds	\$ -	\$ 21,012,523	\$ 21,012,523	\$ -
Due to other governments	3,754,375	58,787,546	60,020,120	2,521,801
Total liabilities	\$ 3,754,375	\$ 79,800,069	\$ 81,032,643	\$ 2,521,801
Total All Agency Funds				
Assets:				
Cash and cash equivalents	\$ 7,438,130	\$ 96,537,681	\$ 99,507,361	\$ 4,468,450
Total assets	\$ 7,438,130	\$ 96,537,681	\$ 99,507,361	\$ 4,468,450
Liabilities:				
Payroll tax liability	\$ 1,538,972	\$ 16,070,432	\$ 16,460,647	\$ 1,148,757
Due to other funds	-	21,136,046	21,136,046	-
Due to other governments	5,899,158	59,331,203	61,910,668	3,319,693
Total liabilities	\$ 7,438,130	\$ 96,537,681	\$ 99,507,361	\$ 4,468,450

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.

Contents	Table
Financial Trends	1 - 5
These tables contain trend information that may assist the reader in assessing the government's current financial performance by placing it in historical perspective.	
Revenue Capacity	6 - 9
These tables contain information that may assist the reader in assessing the viability of the government's most significant local revenue sources.	
Debt Capacity	10 - 14
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.	
Economic & Demographic Information	15 - 16
These tables offer economic and demographic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	17 - 19
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.

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 1

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

	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>
Governmental activities								
Invested in capital assets, net of related debt	\$ 31,054,583	\$ 20,907,099	\$ 26,835,473	\$ 20,563,347	\$ 17,098,445	\$ 20,127,498	\$ 19,175,187	\$ 25,370,253
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
Unrestricted	(36,797,413)	(39,083,486)	(37,369,388)	(21,666,333)	(7,510,520)	(20,610,569)	(23,777,059)	(22,257,663)
Total governmental activities net assets	<u>3,264,028</u>	<u>(9,754,596)</u>	<u>(1,623,712)</u>	<u>8,491,147</u>	<u>17,559,428</u>	<u>8,821,403</u>	<u>1,570,245</u>	<u>9,219,992</u>
Business - type activities								
Invested in capital assets, net of related debt	44,536,897	48,253,494	53,403,909	57,148,473	58,612,743	60,620,384	62,390,291	63,445,317
Unrestricted	15,657,853	16,817,214	16,656,539	16,984,799	14,828,068	16,822,538	15,462,445	17,482,965
Total business - type activities net assets	<u>60,194,750</u>	<u>65,070,708</u>	<u>70,060,448</u>	<u>74,133,272</u>	<u>73,440,811</u>	<u>77,442,922</u>	<u>77,852,736</u>	<u>80,928,282</u>
Primary government								
Invested in capital assets, net of related debt	75,591,480	69,160,593	80,239,382	77,711,820	75,711,188	80,747,882	81,565,478	88,815,570
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
Unrestricted	(21,139,560)	(22,266,272)	(20,712,849)	(4,681,534)	7,317,548	(3,788,031)	(8,314,614)	(4,774,698)
Total primary government activities net assets	<u>\$ 63,458,778</u>	<u>\$ 55,316,112</u>	<u>\$ 68,436,736</u>	<u>\$ 82,624,419</u>	<u>\$ 91,000,239</u>	<u>\$ 86,264,325</u>	<u>\$ 79,422,981</u>	<u>\$ 90,148,274</u>

Notes:

Information is provided for years after adoption of GASB34

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 2

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

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Expenses								
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
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
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
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
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
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
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
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
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
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
Municipal golf course	611,666	925,727	851,582	735,697	1,057,970	1,078,094	1,076,235	1,027,292
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
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
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
Program Revenues								
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
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
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
Public works	407,523	623,799	454,628	941,958	2,668,591	1,418,930	2,463,882	183,134
Health and sanitation	181,465	155,087	151,448	181,677	224,221	177,924	170,013	180,922
Parks and recreation	395,833	378,200	335,559	327,358	366,715	332,878	358,414	411,409
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
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
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
Business - type activities:								
Charges 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
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
Municipal golf course	839,995	945,130	950,416	1,067,497	1,249,958	1,278,723	1,296,971	1,316,067
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
Operating grants and contributions	1,600,757	1,571,561	1,025,750	808,377	948,666	823,762	397,701	1,280,326
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
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

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 2

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

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
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)
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
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>
General Revenue and Other Changes in Net Assets								
Governmental activities:								
Taxes								
Property taxes and other taxes	\$ 40,167,520	\$ 40,058,771	\$ 46,918,139	\$ 48,512,216	\$ 52,579,329	\$ 47,186,003	\$ 47,948,307	\$ 45,476,784
Grants and charges not restricted to specific programs	6,939,484	6,833,526	6,065,052	6,146,246	6,028,421	1,313,230	5,048,294	14,121,087
Unrestricted investment earnings	403,808	499,128	596,402	973,003	1,490,757	762,789	223,172	212,979
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
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>
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)
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>
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>
Change in Net Assets								
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)
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
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>

Notes:

Information is provided for years after adoption of GASB34

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 3

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

<u>Year</u>	<u>Total Taxes</u>	<u>General Property Tax</u>	<u>Earned Income Tax</u>	<u>Business Privilege Tax</u>	<u>Other Local Taxes</u>
2001	\$ 36,457,784	\$ 22,048,441	\$ 7,304,427	\$ 5,250,934	\$ 1,853,982
2002	36,314,207	21,636,395	7,245,325	5,525,667	1,906,820
2003	40,167,520	24,343,349	6,277,135	6,207,494	3,339,542
2004	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

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 4

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Fund										
Reserved	\$ 712,528	\$ 1,519,207	-	-	-	-	\$ 1,571,640	\$ 840,183	\$ 810,719	\$ 1,428,755
Unreserved	7,199,378	1,993,162	\$ (1,351,217)	\$ (3,312,208)	\$ (2,711,620)	\$ 9,128,441	12,565,940	7,365,006	3,476,985	1,687,909
Total general fund	<u>7,911,906</u>	<u>3,512,369</u>	<u>(1,351,217)</u>	<u>(3,312,208)</u>	<u>(2,711,620)</u>	<u>9,128,441</u>	<u>14,137,580</u>	<u>8,205,189</u>	<u>4,287,704</u>	<u>3,116,664</u>
All other governmental funds										
Reserved	9,976,408	12,360,497	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	69,702	168,292	-	-	-	-	(469,193)	(1,061,877)	(629,676)	(95,108)
Capital projects funds	-	(1,061,437)	-	-	-	-	-	-	-	404,985
Total all other governmental funds	<u>10,046,110</u>	<u>11,467,352</u>	<u>18,674,685</u>	<u>15,071,930</u>	<u>12,275,288</u>	<u>11,014,501</u>	<u>12,707,115</u>	<u>9,681,839</u>	<u>9,903,072</u>	<u>7,553,846</u>
TOTAL	<u>\$ 17,958,016</u>	<u>\$ 14,979,721</u>	<u>\$ 17,323,468</u>	<u>\$ 11,759,722</u>	<u>\$ 9,563,668</u>	<u>\$ 20,142,942</u>	<u>\$ 26,844,695</u>	<u>\$ 17,887,028</u>	<u>\$ 14,190,776</u>	<u>\$ 10,670,510</u>

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

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 5

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues										
Taxes	\$ 36,350,126	\$ 36,314,207	\$ 38,926,651	\$ 39,413,259	\$ 45,635,035	\$ 47,342,430	\$ 51,368,491	\$ 47,039,202	\$ 47,630,562	\$ 45,438,333
Licenses and permits	2,438,559	2,543,809	2,805,947	3,226,492	3,062,847	3,248,191	3,477,297	3,459,268	3,571,616	4,874,549
Charges for services	5,957,518	3,151,332	4,442,950	5,674,904	4,897,309	4,612,567	6,613,544	5,864,796	7,155,768	4,853,162
Fines and forfeits	589,014	548,383	735,416	701,001	555,898	578,363	580,737	592,504	461,834	500,334
Investment earnings	1,184,017	1,049,163	403,808	573,184	497,787	961,195	1,471,916	758,833	223,172	212,979
Intergovernmental revenues	9,859,158	16,090,792	15,093,944	14,946,143	18,944,800	19,846,232	17,152,512	24,407,606	20,897,082	30,437,462
Other	3,466,845	4,924,515	2,398,988	2,205,131	2,091,724	4,131,305	4,177,786	3,664,260	4,374,132	5,437,568
Total revenues	<u>59,845,237</u>	<u>64,622,201</u>	<u>64,807,704</u>	<u>66,740,114</u>	<u>75,685,400</u>	<u>80,720,283</u>	<u>84,842,283</u>	<u>85,786,469</u>	<u>84,314,166</u>	<u>91,754,387</u>
Expenditures										
General government	8,427,623	3,096,579	5,654,308	6,025,189	8,350,112	11,112,672	7,806,908	7,962,093	7,656,616	7,507,262
Public safety	31,130,814	34,285,980	32,869,199	35,623,754	36,144,138	34,632,057	43,639,004	47,424,025	49,916,239	50,100,384
Community development	3,931,950	5,332,381	6,638,437	8,816,554	8,159,802	8,614,385	9,442,326	12,482,112	12,605,261	14,171,165
Public works	6,321,047	7,727,514	8,879,470	8,432,129	8,952,519	9,267,279	9,339,687	9,985,082	9,747,558	9,740,759
Health and sanitation	4,250,052	5,186,895	3,492,039	3,401,766	3,322,865	4,402,484	3,240,066	3,005,201	2,648,017	2,738,801
Parks and recreation	2,536,419	1,625,743	1,877,648	1,497,280	2,323,552	2,734,768	2,925,564	3,107,688	2,851,795	2,503,318
Debt service:										
Principal	5,000,000	5,910,000	5,955,000	4,300,000	4,630,000	5,134,432	3,618,900	2,633,800	2,575,600	3,131,400
Interest	4,725,143	4,556,516	4,456,400	2,553,329	3,971,511	3,894,144	4,395,128	3,790,899	3,960,851	3,942,027
Payment of loan issuance costs	-	-	170,385	932,830	-	251,525	4,595,871	261,309	49,786	-
Capital outlay	9,492,137	5,660,189	6,534,655	9,031,443	6,765,457	7,245,177	1,379,020	10,351,660	5,988,589	10,009,124
Total expenditures	<u>75,815,185</u>	<u>73,381,797</u>	<u>76,527,541</u>	<u>80,614,274</u>	<u>82,619,956</u>	<u>87,288,923</u>	<u>90,382,474</u>	<u>101,003,869</u>	<u>98,000,312</u>	<u>103,844,240</u>
Excess of revenues over (under) expenditures	<u>(15,969,948)</u>	<u>(8,759,596)</u>	<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>
Other Financing Sources (uses):										
Issuance of long term debt	7,104,784	-	18,911,061	64,725,837	-	12,053,400	22,763,981	6,665,000	5,310,000	258,976
Payment to refunded bonds escrow agent	-	-	(8,911,809)	(60,293,007)	-	-	(17,850,000)	(6,410,000)	-	-
Bond Discount	-	-	-	-	-	-	(379,897)	6,309	-	-
Capital lease obligations	-	997,406	559,778	406,540	-	105,077	273,220	1,582,940	-	-
Transfers in	11,929,335	(10,065,751)	16,053,898	9,979,882	12,726,232	14,405,814	18,766,342	12,046,134	12,408,683	12,749,243
Transfers out	(7,039,239)	14,849,646	(12,549,343)	(6,508,838)	(8,011,200)	(9,416,378)	(11,331,702)	(7,630,650)	(7,728,789)	(7,885,411)
Total other financing sources and uses	<u>11,994,880</u>	<u>5,781,301</u>	<u>14,063,585</u>	<u>8,310,414</u>	<u>4,715,032</u>	<u>17,147,913</u>	<u>12,241,944</u>	<u>6,259,733</u>	<u>9,989,894</u>	<u>5,122,808</u>
Net change in fund balances	<u>\$ (3,975,068)</u>	<u>\$ (2,978,295)</u>	<u>\$ 2,343,748</u>	<u>\$ (5,563,746)</u>	<u>\$ (2,219,524)</u>	<u>\$ 10,579,273</u>	<u>\$ 6,701,753</u>	<u>\$ (8,957,667)</u>	<u>\$ (3,696,252)</u>	<u>\$ (6,967,045)</u>
Debt service as a percentage of noncapital expenditures	14.7%	16.6%	15.7%	9.3%	11.6%	11.5%	9.7%	6.8%	7.1%	7.3%

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>	Real Property					Total Taxable Assessed Value	Tax Exempt Real Property	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value (1)
	Residential Property	Commercial Property	Multi-Family Property	Combination Property	Vacant Lots					
2001	\$ 999,322,550	\$ 351,892,550	\$ 221,989,800	\$ 53,503,650	\$ 15,869,600	\$ 1,642,578,150	\$ 416,363,400	I - 9.05 L - 37.49	\$ 3,285,156,300	50%
2002	1,006,473,450	355,698,650	222,262,450	54,074,200	15,174,000	1,653,682,750	414,514,750	I - 7.98 L - 36.21	3,307,365,500	50%
2003	1,010,110,220	379,636,300	223,499,950	52,664,950	15,259,550	1,681,170,970	420,408,200	I - 7.71 L - 41.95	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	I - 8.93 L - 41.95	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	I - 8.93 L - 50.40	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	I - 10.723 L - 50.38	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	I - 10.723 L - 50.38	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	I - 10.723 L - 50.38	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	I - 10.723 L - 50.38	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	L - 50.38	3,405,471,900	50%

Note:

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.

L - land millage

I - improvement millage

(1) Calculation does not include tax exempt property.

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

<u>Fiscal Year</u>	<u>Direct Rates</u>	<u>Overlapping Rates</u>		<u>Total Direct & Overlapping Rates</u>
	<u>Allentown City Total City Millage</u>	<u>School District Total School Millage</u>	<u>County Total County Millage</u>	
2001	13.22	33.311	7.31	53.84
2002	12.72	34.194	7.31	54.22
2003	14.72	37.490	12.39	64.60
2004	14.72	39.490	10.75	64.96
2005	17.52	41.734	10.75	70.00
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

Notes:

City real estate taxes are payable on June 5 with a 2% discount available if paid prior to April 5. 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>2010</u>			<u>2001</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>
Home Properties Trexler Park LLC (1999-Gateside-Trexler Co.)	\$ 10,411,550	1	0.62%	\$ 4,589,150	9	0.28%
Congress Associates	6,575,850	2	0.39%	9,574,250	2	0.58%
The Lakes	5,961,050	3	0.36%	5,961,050	5	0.36%
Morris Allentown Associates LP ET	5,535,000	4	0.33%			
Lehigh Valley Hospital Inc.	5,372,750	5	0.32%			0.00%
Westmont LP	5,156,050	6	0.31%			
Allentown Commerce Park Corp.	4,900,000	7	0.29%	4,900,000	7	0.30%
230 Riverbend Apartments LLC	4,290,000	8	0.26%			0.00%
EPC-Allentown LLC	3,914,350	9	0.23%			
The Morning Call	3,728,700	10	0.22%	7,339,150	3	0.45%
Sharma Baldev Raj & Sudesh				4,637,500	8	0.28%
Agere Systems/Lucent Technologies				14,152,600	1	0.86%
Mack Trucks Inc.				6,813,850	4	0.41%
Eastern Retail Holdings				5,753,700	6	0.35%
Allentown Oxford Assoc. Ltd. Partnership				<u>4,197,500</u>	10	<u>0.26%</u>
Total	<u><u>\$ 55,845,300</u></u>		<u><u>3.33%</u></u>	<u><u>\$ 67,918,750</u></u>		<u><u>4.13%</u></u>

Source:
City of Allentown Property Tax File

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 9

Property Tax Levies and Collections
Last Ten Years

Fiscal Year Ended December 31	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Fiscal Year	Percentage of Levy		Amount	Percentage of Levy
2001	\$ 22,281,666	\$ 20,545,834	92.2%	\$ 930,108	\$ 21,475,942	96.4%
2002	21,888,395	20,383,118	93.1%	700,380	21,083,498	96.3%
2003	24,415,246	23,238,105	95.2%	912,354	24,150,459	98.9%
2004	25,221,033	23,411,082	92.8%	867,407	24,278,489	96.3%
2005	29,804,140	28,226,175	94.7%	1,012,349	29,238,524	98.1%
2006	30,984,146	28,464,063	91.9%	968,815	29,432,878	95.0%
2007	31,311,392	27,958,172	89.3%	1,152,857	29,111,029	93.0%
2008	29,796,059	28,339,285	95.1%	954,363	29,293,648	98.3%
2009	29,383,171	28,143,621	95.8%	740,516	28,884,137	98.3%
2010	29,349,230	28,331,648	96.5%	-	28,331,648	96.5%

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 10

Ratios of Outstanding Debt By Type
Last Ten Years

Fiscal Year	<u>Governmental Activities</u>		<u>Business-Type Activities</u>				Total Primary Government	Percentage of Personal Income	Per Capita
	<u>General Obligation Bonds</u>	<u>Capital Leases</u>	<u>Water Bonds</u>	<u>Sewer Bonds</u>	<u>Capital Leases</u>	<u>Other</u>			
2001	\$ 84,000,000	\$ 641,261	\$ 41,485,000	\$ 21,600,000	\$ -	\$ 2,630,000	\$ 150,356,261	4.71%	\$ 1,410
2002	78,505,000	1,336,689	38,235,000	20,000,000	202,870	2,215,000	140,494,559	4.35%	1,318
2003	81,925,000	1,676,681	34,565,000	18,830,000	388,815	1,800,000	139,185,496	4.20%	1,305
2004	89,330,000	1,663,615	32,040,000	17,430,000	3,298,664	1,400,000	145,162,279	4.30%	1,361
2005	85,100,000	1,272,836	27,730,000	15,555,000	2,689,177	1,000,000	133,347,013	3.85%	1,251
2006	92,518,968	1,024,181	23,570,200	14,000,000	2,172,144	500,000	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

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

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
2001	\$ 84,000,000	2.56%	\$ 788
2002	78,505,000	2.37%	736
2003	81,925,000	2.44%	768
2004	89,330,000	2.65%	838
2005	85,100,000	2.51%	798
2006	92,518,968	2.72%	868
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

**Direct and Overlapping Governmental Activities Debt
As of December 31, 2010**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Allentown School District	\$ 189,596,154	100.0%	\$ 189,596,154
Lehigh County General Obligation Bonds	190,126,538	20.2%	<u>38,405,561</u>
Subtotal, overlapping debt			228,001,715
City of Allentown Direct Debt (1)			<u>94,853,046</u>
Total direct and overlapping debt			<u><u>\$ 322,854,761</u></u>

Notes:

- (1) Leases 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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Debt limit	\$ 169,156,715	\$ 169,630,780	\$ 171,794,413	\$ 185,516,142	\$ 228,107,156	\$ 237,239,268	\$ 257,334,258	\$ 257,943,550	\$ 258,815,970	\$ 259,225,834
Total net debt applicable to limit	<u>52,690,000</u>	<u>48,335,000</u>	<u>52,915,000</u>	<u>53,345,000</u>	<u>49,765,000</u>	<u>57,843,968</u>	<u>62,294,049</u>	<u>58,630,812</u>	<u>63,344,649</u>	<u>63,528,046</u>
Legal debt margin	<u>\$ 116,466,715</u>	<u>\$ 121,295,780</u>	<u>\$ 118,879,413</u>	<u>\$ 132,171,142</u>	<u>\$ 178,342,156</u>	<u>\$ 179,395,300</u>	<u>\$ 195,040,209</u>	<u>\$ 199,312,738</u>	<u>\$ 195,471,321</u>	<u>\$ 195,697,788</u>
Total net debt applicable to the limit as a percentage of debt limit	31.15%	28.49%	30.80%	28.75%	21.82%	24.38%	24.21%	22.73%	24.47%	24.51%

Legal Debt Margin Calculation for Fiscal year 2010

Borrowing base (1)	\$ 74,064,524
Percentage limitation	350%
Net debt limit	259,225,834
Debt applicable to limit:	
General obligation debt	94,853,046
Less: Amount set aside for pension funding liability	<u>(31,325,000)</u>
	<u>63,528,046</u>
	<u>\$ 195,697,788</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.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 14

Pledged-Revenue Coverage
Last Ten Years

Fiscal Year	Water Revenue Bonds						Sewer Revenue Bonds					
	Water Revenues and Other	Less: (1) Operating Expenses	Net Available Revenue	Debt Service		Coverage	Sewer Revenues and Other	Less: (1) Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
2001	\$ 12,504,275	\$ 6,086,903	\$ 6,417,372	\$ 3,310,000	\$ 2,042,145	1.20	\$ 10,272,891	\$ 7,877,905	\$ 2,394,986	\$ 1,485,000	\$ 979,865	0.97
2002	12,451,888	6,329,825	6,122,063	3,385,524	1,820,249	1.18	12,450,614	8,286,170	4,164,444	1,600,000	989,132	1.61
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

Notes:

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

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 15

**Demographic and Economic Statistics
Last Ten Years**

Fiscal Year	Population (1)	Personal Income	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rate (4)
2001	106,632	\$ 3,192,988,608	\$ 29,944	16,174	5.4%
2002	106,632	3,228,816,960	30,280	16,693	7.2%
2003	106,632	3,310,923,600	31,050	16,969	6.3%
2004	106,632	3,374,796,168	31,649	17,521	7.1%
2005	106,632	3,459,888,504	32,447	18,118	6.6%
2006	106,632	3,605,014,656	33,808	18,209	6.4%
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	17,870	12.7%

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>2010</u>			<u>2001</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	2,979	1	3.95%	2,585	3	2.77%
PPL Co.	1,810	2	2.40%	1,942	6	2.08%
Lehigh County & Institutions	1,779	3	2.36%	2,119	5	2.27%
Breckenridge Enterprises	1,526	4	2.02%			
Performance Personnel	1,514	5	2.01%			
Allied Temporary Services	1,493	6	1.98%	1,833	8	1.97%
Commonwealth of Pennsylvania	1,455	7	1.93%			
City of Allentown	1,432	8	1.90%			
Lehigh Valley Hospital	1,318	9	1.75%	1,370	10	1.47%
Sacred Heart Hospital	1,220	10	1.62%	1,608	9	1.73%
Contemporary Personnel				2,427	4	2.60%
Mack Trucks Inc.				2,621	2	2.81%
Muhlenberg College				1,881	7	2.02%
Agere Systems Inc.				3,461	1	3.71%
	<u>16,526</u>		<u>21.90%</u>	<u>21,847</u>		<u>23.44%</u>

Source:

Prior to 2009 City of Allentown Earned Income Tax File
2009 and Later: Keystone Collections Group

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 17

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

Function	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Government	91	93	99	96	95	101	94	101	94	93
Public Safety										
Police										
Officers	221	229	248	247	235	237	207	211	203	205
Civilians	24	25	26	27	24	22	24	26	32	28
EMS	27	27	32	30	31	32	32	32	29	31
E-911	25	25	25	23	23	27	28	32	32	32
Fire										
Firefighters and officers	146	150	150	149	139	140	140	140	142	143
Civilians	1	1	1	1	1	1	1	1	1	1
Highways and Streets	68	68	68	69	59	58	58	58	53	48
Sanitation/Recycling	23	29	29	30	31	37	37	38	36	32
Building Maintenance	18	18	18	16	16	15	15	15	20	12
Building Standards & Safety	27	32	34	33	35	36	35	40	41	39
Culture and Recreation	41	42	44	43	41	41	37	39	34	25
Golf	0	3	3	4	4	6	6	6	5	5
Health	42	49	49	45	44	44	43	42	36	35
Water	87	88	89	86	86	87	93	93	89	84
Sewer	99	99	100	96	98	91	97	97	96	97
Total	940	978	1,015	995	962	975	947	971	942	910

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Function										
Police										
Law Violations	17,019	17,418	19,612	18,103	18,336	19,072	17,381	16,794	14,906	14,433
Traffic violations (2)	11,371	12,487	14,397	16,074	11,465	8,744	5,586	5,227	6,788	9,949
Fire										
Number of calls answered (3)	6,036	6,175	6,090	5,889	5,955	6,033	6,346	8,988	12,206	11,383
Inspections and investigations	3,394	3,095	2,754	3,414	2,637	2,284	2,568	1,821	1,823	2,668
Highways and Streets										
Street reconstruction (miles)	1.5	1.2	0.9	0.7	0.0	0.1	0.15	0.29	0.13	0.02
Overlays (miles)	n/a	n/a	n/a	n/a	n/a	n/a	4.4	6.2	5.2	5.4
Potholes repaired	22,523	18,755	19,621	17,079	13,909	11,691	10,734	15,552	12,427	10,488
Sanitation										
Refuse collected (tons/year)	40,091	40,642	41,870	43,300	44,476	42,126	38,746	36,907	33,533	35,401
Recyclables collected (tons/year)	2,488	2,646	2,762	7,595	8,355	6,194	8,398	9,954	9,472	9,043
Sweep tickets issued (1)	n/a	n/a	n/a	n/a	786	3,604	4,957	5,203	6,047	6,891
Animal related complaints (4)	2,053	1,908	1,818	1,582	1,391	1,222	1,510	1,476	1,467	1,193
Health										
Home hazard surveys	164	207	305	363	360	243	241	319	300	439
Food service inspections	1,259	1,215	1,436	1,560	1,377	1,405	1,429	1,456	1,708	1,765
Number of home visits	886	2,493	2,695	2,720	2,412	2,228	1,658	906	384	303
Total lead screenings	917	836	718	850	857	870	690	773	849	945
Persons tested & counseled for HIV infection	2,312	2,478	2,500	2,500	2,268	2,160	2,324	2,472	2,544	2,656
Recreation										
Pavilion permits	n/a	n/a	173	113	178	206	325	508	389	382
Swimming pool season passes	238	255	231	196	148	152	191	195	116	211
Swimming pool patrons (non season pass)	17,030	24,373	18,485	12,732	17,773	13,395	43,623	56,453	65,428	64,932
Water										
Water connection permits	12	21	20	25	51	25	57	20	16	17
Water main breaks	22	20	25	25	25	9	29	22	18	22
Average daily consumption (millions of gallons)	17.09	16.06	15.46	14.85	15.26	14.48	14.75	14.80	14.50	14.75
Wastewater										
Average daily sewage treatment (millions of gallons)	30.78	29.45	35.38	31.25	31.72	31.16	30.80	32.27	30.70	31.64

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 18

Operating Indicators By Function
Last Ten Years

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Golf										
Number of patrons	50,000	46,831	38,000	40,000	39,900	42,000	47,040	50,155	50,548	50,562
Number of days of service	350	330	280	310	320	225	273	305	299	293
E-911										
Number of calls:										
Police	93,385	95,049	112,202	116,435	107,219	105,196	107,135	103,600	112,841	112,639
EMS	10,814	11,323	11,867	12,073	12,932	12,929	13,485	13,985	13,512	13,843
Fire (3)	6,036	6,175	6,112	5,913	5,969	6,048	6,353	8,955	12,210	11,393
Other	7,674	8,344	10,071	9,582	9,156	8,952	9,556	8,760	9,259	8,572

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.

Capital Asset Statistics By Function
Last Ten Years

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public Safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Police officers	223	226	237	220	172	190	187	197	203	199
Patrol units	73	89	89	92	86	83	87	84	84	87
Fire:										
Stations	6	6	6	6	6	6	6	6	6	6
Fire Fighters	146	146	146	147	135	140	140	140	141	141
Sanitation										
Collection Trucks	0	2	2	3	3	3	3	3	3	3
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	7,742	7,751	7,757	7,762	7,761	7,766	7,829	7,835	7,990	7,995
Traffic signals	n/a	n/a	n/a	n/a	n/a	1,622	1,622	1,622	1,622	1,622
Recreation										
Parks acreage	2,020	2,020	2,020	2,020	2,020	2,022	2,022	2,022	2,022	2,022
Parks (1)	16	16	32	28	28	29	32	32	32	32
Swimming pools	5	5	5	5	5	5	5	5	5	4
Playgrounds	10	10	10	9	11	11	16	19	19	19
Water										
Water mains (miles)	273.3	273.3	300.0	300.0	300.0	300.0	310.0	310.0	310.0	310.0
Fire hydrants	n/a	n/a	n/a	n/a	n/a	1,708	1,819	1,819	1,816	1,818
Maximum daily capacity (millions of gallons)	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30
Sewer										
Sanitary sewers (miles)	295.8	295.8	293.0	293.0	293.0	293.0	283.0	283.0	283.0	283
Storm sewers (miles)	185.0	185.0	185.0	185.0	185.0	185.0	165.0	165.0	165.0	165.0
Maximum daily treatment capacity (millions of gallons)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40
Golf										
Number of Courses	1	1	1	1	1	1	1	1	1	1

Source:
Various city departments.

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

THIS PAGE INTENTIONALLY LEFT BLANK

**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.

THIS PAGE INTENTIONALLY LEFT BLANK