

CITY OF ALLENTOWN
Pennsylvania

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**



GARRET H. STRATHEARN
DIRECTOR OF FINANCE

DEBI BOWMAN
DEPUTY DIRECTOR OF FINANCE & TREASURY

For the year ended
December 31, 2013

**CITY OF ALLENTOWN, PENNSYLVANIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2013**



MAYOR

Ed Pawlowski

CITY COUNCIL

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

CITY CONTROLLER

Mary Ellen Koval

CITY SOLICITOR

Jerry A. Snyder, Esq.

Garret H. Strathearn, Director of Finance
Debi Bowman, Deputy Director of Finance and Treasury

Maher Duessel, Certified Public Accountants

**This Report was prepared by
The Department of Finance
Garret H. Strathearn, Director of Finance
Debi Bowman, Deputy Director of Finance and Treasury**

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., PPL and Mack Trucks have selected Lehigh County as their headquarters or as the location of significant operations. National Penn Bank Corp. relocated its headquarters to the brand new 11-story Two City Center in the downtown this spring. 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 10,000 seat PPL Arena, on track to open in September, 2014, will serve as home to the Lehigh Valley Phantoms of the American Hockey League. The City maintains 2,000 acres of park land, well above the national average.

CITY OF ALLENTOWN, PENNSYLVANIA

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Garret H. Strathearn

Director of Finance

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August 28, 2014

Honorable Mayor and Members of City Council
Allentown, Pennsylvania

The Comprehensive Annual Financial Report (CAFR) of the City of Allentown, Pennsylvania (City), for the fiscal year ended December 31, 2013 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; the delivery of community health services through the City's Health Bureau; recreational and parks activities; community and economic development including planning and zoning; and general administrative support services. The City also provided water/sewer services through August 7, 2013 at which time the responsibility for the delivery of those services was transferred to the Lehigh County Authority (LCA) under the provisions of a Concession Lease Agreement (CLA) between the City and LCA.

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

FINANCIAL INFORMATION

Internal Controls: Management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft, or misuse. The City is further responsible to ensure 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 controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. The CAFR includes Management's Discussion and Analysis (MD&A) which provides an analysis of the City's financial condition for 2013.

Budgetary Controls: The City also maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General Fund, certain Special Revenue Funds, and Debt Service Fund are included in the annual appropriated budget. Project-length financial plans are adopted for the Capital Projects Funds. The City Charter requires the City's legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) to be at the fund level. As a management control, the Finance Director has the power to authorize the transfer of any unexpended balance up to \$5,000 between accounts within a fund. Transfers exceeding \$5,000 must be approved by City Council.

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 accounts, 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 2014 to perform the annual audit for fiscal years 2013 through 2015. 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: 2013 was a year of extraordinary economic growth in the heart of downtown Allentown. Significant material progress was made on the construction of five major new buildings in the center of the City: an arena which will serve as home to the Phantoms – the top AHL team of the Philadelphia Flyers (this arena will have a capacity of 8500 seats for hockey and 10,000 for concerts); a 180 room Marriott Renaissance Hotel attached to the arena; and three new office buildings including the 11-floor newly relocated headquarters of National Penn Bancshares, scheduled to open in the Spring of 2014. This \$500MM worth of new construction is scheduled to be completed, occupied and operational in 2014, resulting in several thousand new employees; hundreds of thousands of visitors as well as contributing significant new ratables to the City's real estate tax rolls.

This economic development success comes as a direct result of state legislation, (Neighborhood Improvement Zone - NIZ). Passed in 2009 and 2011 and unique to the City of Allentown, this law allows the City to use certain tax revenues to rebuild its downtown core and waterfront areas with the specific purpose of generating millions of dollars of investment in new job creating projects. The NIZ stretches from the City's center to its Lehigh River waterfront.

Equally as important in 2013 to the financial health and future of Allentown was the successful closing of the 50-year Concession Lease Agreement (CLA) with the Lehigh County Authority (LCA). This agreement allows LCA to operate Allentown's water/sewer system in exchange for a \$211MM upfront payment, plus a \$500K annual payment beginning in year 4 of the lease. This upfront payment allowed the City to eliminate the most serious financial problem ever to threaten its future: its enormous unfunded pension liability. Dealing with this problem put Allentown on a firm financial footing for well into its future. Both S&P and Moody's rating agencies followed up the closing with favorable comments on this important transaction.

2013 also saw a continued decrease in violent crime – a decline that started in 2006. In this effort, the City continues to employ and expand its usage of high-technology tools such as multiple remote cameras sites to assist the Police Department. Again, in 2013, the City's Fire Department continued its leadership in emergency management situations and training thus maintaining the City's position as a regional pacesetter in the emergency management arena.

Finally, in 2013, Management continued to work diligently with City Council and the Controller to pursue its efforts at achieving significant cost containment measures across the board.

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



Debi Bowman
Deputy Director of Finance and Treasury



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Allentown
Pennsylvania**

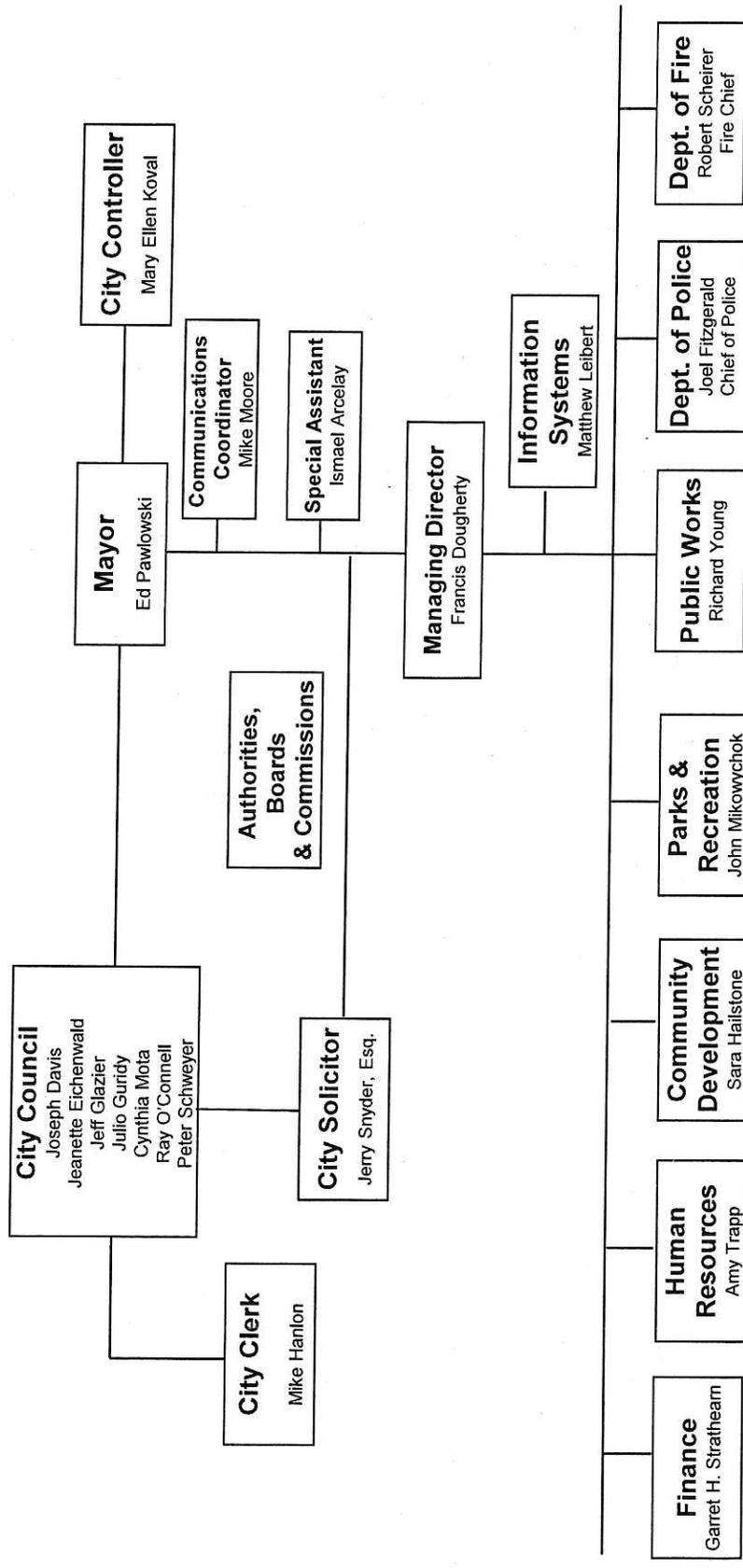
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2012

Executive Director/CEO

City of Allentown

2013 Organizational Chart



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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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Redevelopment Authority of the City of Allentown and the Allentown Parking Authority, which represents 100% of the assets, net position, and revenues, of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the 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 of America. The financial statements of the Redevelopment Authority of the City of Allentown and the Allentown Parking Authority were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers

internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedules of funding progress and employer contributions on pages 4 through 20, 99 through 105, and on pages 106 through 109 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
August 28, 2014

**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 (City) for the year ended December 31, 2013. 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, 2013. Additional information is provided in the Transmittal Letter preceding this MD&A which can be found on pages i-iii of this report. This discussion focuses on the City's primary government. Component units, unless otherwise noted, are not included in this discussion.

FINANCIAL HIGHLIGHTS

On May 1, 2013, the City entered into a Water and Sewer Utility System Concession and Lease Agreement (Agreement) with the Lehigh County Authority (LCA). The terms of the Agreement provide that LCA pay the City \$220,000,000 and the City lease the system to LCA to operate and provide utility services. In addition, beginning January 1, 2016, the LCA agreed to pay the City an annual installment of \$500,000 over the lease term. The lease term began on August 7, 2014 for a term of 50 years. The proceeds of the lease were used to extinguish or defease the debt of the Water and Sewer Funds and provide resources to loan funds to the City's pension plans. The City's Water and Sewer Funds were closed as of December 31, 2013.

During 2013, the City's total net position increased by \$25,612,274. The net position of governmental activities increased \$97,897,413 and the net position of business-type activities decreased \$72,285,139. The increase in the governmental net position was primarily due to the Agreement, in addition to an increase in operating and capital grants and an increase in earned income tax revenue. The decrease in the business-type activities was due to the Water and Sewer Funds being closed out.

With the County reassessment, the property tax general millage is now at 5.80 mills for 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of four parts:

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

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

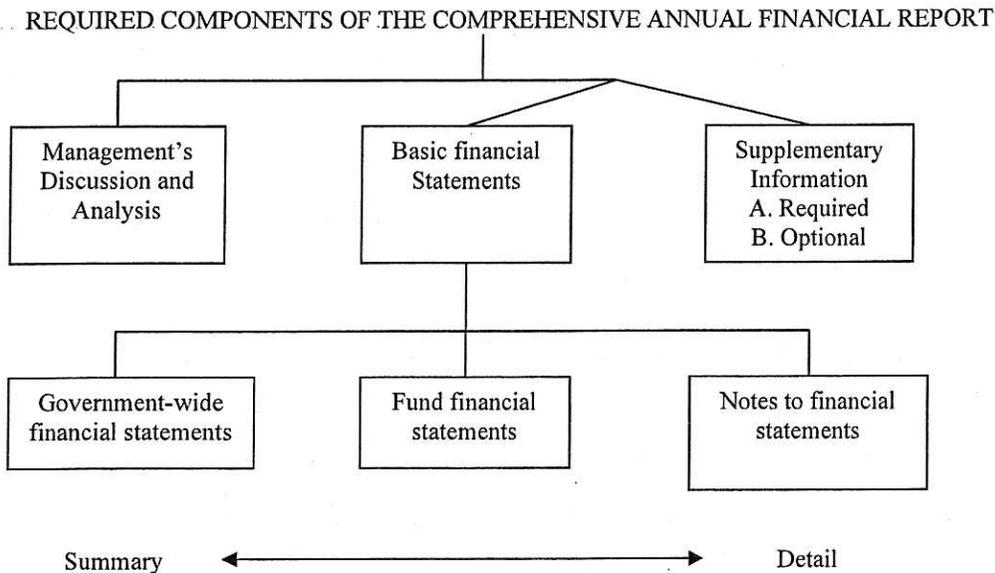
City of Allentown, Pennsylvania
Management's Discussion and Analysis

the financial data provided in the government-wide and fund financial statements. Required supplementary information is provided on the City's pension and other post-employment benefit plans and budget-to-actual figures for the general fund. In addition to these required elements, an optional supplementary section is included with other statements that provide particulars about non-major funds.

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

- *Government-wide financial statements*, the first two statements, provide a broad overview of the City's overall financial status as well as the financial status of the City's component units, in a manner similar to private-sector business.
- *Fund financial statements*, the remaining statements, focus on individual parts of City government. They provide more detail on operations than the government-wide statements. There are three types of fund financial statements:
 - *Governmental funds statements* show how general government services such as public safety were financed in the short term, as well as what remains for future spending.
 - *Proprietary funds statements* offer short-term and long-term financial information about the activities the City operates like a business, such as the Solid Waste 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.



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	Business-Type	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 business-type activities of the City, such as the Solid Waste 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 position • 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 position • Statement of revenues, expenses, and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term; funds do not contain capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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

Government-wide financial statements

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

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

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

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

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

There are two categories of activities for the primary government.

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

Net position of the governmental activities differs from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Capital assets are reported as expenditures when financial resources (monies) are expended to purchase or build assets in the fund financial statements. Likewise, the financial resources that may have been borrowed are considered other financing sources when they are

City of Allentown, Pennsylvania
Management's Discussion and Analysis

received in the fund financial statements. Principal and interest payments are both considered expenditures when paid in the fund financial statements. Depreciation is not calculated, as it does not provide or reduce current financial resources in the fund financial statements.

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

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

Fund financial statements

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

The City has three kinds of funds:

- *Governmental funds* include most of the City's basic services and focus on: (1) the flow in and out of cash and other financial assets that can be readily converted to cash, and (2) the balances left at year-end that are available for spending. The eight governmental funds that the City maintains (General, Liquid Fuels, Community Development Block Grant, Revolving Loan, Debt Service, Capital Projects, Trexler, and E-911) are reported using the modified accrual accounting basis, and a current financial resources measurement focus. Consequently, the governmental fund financial statements provide

a detailed short-term view that helps determine the financial resources available in the near future to finance the City's programs.

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Net Position

The City's total assets were \$468,530,009 at December 31, 2013. Of this amount, \$198,035,816 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 2013 financial statements.

City of Allentown, Pennsylvania
Management's Discussion and Analysis

Table A-3: Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 79,628,340	\$ 27,942,973	\$ 8,187,381	\$ 25,491,184	\$ 87,815,721	\$ 53,434,157
Capital assets, net	192,072,489	100,290,092	5,963,327	87,609,231	198,035,816	187,899,323
Other non-current assets	182,678,472	11,365,685	-	1,487,555	182,678,472	12,853,240
Total Assets	454,379,301	139,598,750	14,150,708	114,587,970	468,530,009	254,186,720
Current and other liabilities	23,348,353	20,909,467	1,401,009	8,518,590	24,749,362	29,428,057
Long-term liabilities	106,353,803	107,731,336	504,626	20,704,765	106,858,429	128,436,101
Total Liabilities	129,702,156	128,640,803	1,905,635	29,223,355	131,607,791	157,864,158
Deferred Inflows of Resources:						
Utility system concession lease	216,988,383	-	-	-	216,988,383	-
Deferred charge on refunding	350,915	-	-	-	350,915	-
Total Deferred Inflows of Resources	217,339,298	-	-	-	217,339,298	-
Net position:						
Net investment in capital assets	126,410,580	32,494,392	5,551,723	68,128,410	131,962,303	100,622,802
Restricted	162,936,167	12,274,999	-	-	162,936,167	12,274,999
Unrestricted	(182,008,900)	(33,811,444)	6,693,350	17,236,205	(175,315,550)	(16,575,239)
Total Net Position	\$ 107,337,847	\$ 10,957,947	\$ 12,245,073	\$ 85,364,615	\$ 119,582,920	\$ 96,322,562

During 2013, the net position increased \$25.6 million or 27.3% to \$119.6 million. Of this amount, \$132 million represents the net balance of long-term capital assets and capital related long-term debt, while \$163 million is restricted for various purposes.

City of Allentown, Pennsylvania
Management's Discussion and Analysis

Table A-4: Changes in net position

The following statement of activities represents changes in net position for the year ended December 31, 2013. 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	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 16,220,177	\$ 12,129,498	\$ 33,795,141	\$ 46,078,461	\$ 50,015,318	\$ 58,207,959
Operating grants and contributions	17,010,242	13,496,058	887,428	1,630,127	17,897,670	15,126,185
Capital grants	24,157,607	5,654,879	-	-	24,157,607	5,654,879
General revenues:						
Taxes	58,031,788	57,041,497	-	-	58,031,788	57,041,497
Investment earnings	69,236	19,651	132,218	-	201,454	19,651
Unrestricted grants/chgs	10,290,239	10,216,783	-	-	10,290,239	10,216,783
Total revenues	125,779,289	98,558,366	34,814,787	47,708,588	160,594,076	146,266,954
Expenses:						
General government	16,865,074	16,164,160	-	-	16,865,074	16,164,160
Public safety	48,764,915	54,635,907	-	-	48,764,915	54,635,907
Community development	7,909,900	8,126,929	-	-	7,909,900	8,126,929
Public works	13,962,846	12,066,315	-	-	13,962,846	12,066,315
Health and sanitation	3,116,962	2,763,477	-	-	3,116,962	2,763,477
Parks and recreation	3,938,834	2,910,615	-	-	3,938,834	2,910,615
Interest long-term debt	4,997,583	5,331,070	-	-	4,997,583	5,331,070
Water fund	-	-	8,718,973	10,999,925	8,718,973	10,999,925
Sewer fund	-	-	9,673,907	14,242,086	9,673,907	14,242,086
Municipal golf course	-	-	1,204,675	1,167,107	1,204,675	1,167,107
Solid waste fund	-	-	14,529,054	14,549,004	14,529,054	14,549,004
Total expenses	99,556,114	101,998,473	34,126,609	40,958,122	133,682,723	142,956,595
Change in net position before capital contributions and transfers	26,223,175	(3,440,107)	6,831,513	6,750,466	26,911,353	3,310,359
Transfers	71,674,238	4,394,730	(71,674,238)	(4,394,730)	-	-
Special items	-	-	(1,299,079)	-	(1,299,079)	-
Change in net position	97,897,413	954,623	(72,285,139)	2,355,736	25,612,274	3,310,359
Net position beginning, restated	9,440,434	10,003,324	84,530,212	83,008,879	93,970,646	93,012,203
Net position ending	\$ 107,337,847	\$ 10,957,947	\$ 12,245,073	\$ 85,364,615	\$ 119,582,920	\$ 96,322,562

The City adopted GASB Statement No. 65 during the year ended December 31, 2013. As a result of adopting Statement No. 65, beginning net position has been restated in the December 31, 2013 financial statements.

Total government-wide revenues of \$160.6 million came primarily from taxes of \$58 million, representing 36.1 percent of the total. Charges for services at \$50 million made up the second largest source at 31.1 percent, followed by operating and capital grants, and contributions of \$42.1 million, or 26.2 percent, and other revenue sources made up the remaining 6.6 percent.

City of Allentown, Pennsylvania
Management's Discussion and Analysis

Total expenses for all programs in 2013 were \$133.7 million. The expenses cover a range of services, with the largest being public safety at \$48.8 million or 36.5 percent. The second largest program area was general government at \$16.9 million or 12.6 percent, followed by the solid waste fund at \$14.5 million or 10.9 percent, followed by the public works at \$14 million or 10.5 percent, then sewer fund at \$9.7 million or 7.2 percent, the water fund at \$8.7 million or 6.5 percent followed by community development at \$7.9 million or 5.9 percent, followed by interest on outstanding debt at \$5 million or 3.7 percent followed by parks and recreation at \$3.9 million or 3.0 percent, health and sanitation at \$3.1 million or 2.3 percent and golf course at \$1.2 million or 0.9 percent.

Capital and operating grants and contributions increased by \$21.3 million from 2012 to 2013 primarily due to grants for bridge infrastructure.

Public Safety expenses decreased \$5.9 million, which was due to the revised pension cost related to the additional funding to the unfunded pension liability per ACT 205. Public Works increased \$1.9 million and Parks and Recreation increased by \$1 million due to the restructuring of personnel from the Enterprise Funds to the General Fund.

Government-wide charges for services decreased \$8.2 million and business-type activities expenses decreased \$6.8 million due to the Agreement.

Net cost of services

Net cost of services indicates the amount of support required from taxes and other general revenues for a program of the government. In 2013, real estate and Act 511 taxes brought in \$58 million. There were \$10.3 million in grants and contributions not restricted to specific purposes. Table A-5 depicts the net program expenses for the years ended December 31, 2013 and 2012.

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

	Total cost of services		Net cost of services	
	2013	2012	2013	2012
Program:				
General government	\$ 16,865,074	\$ 16,164,160	\$ 6,153,868	\$ 10,678,672
Public safety	48,764,915	54,635,907	42,725,502	48,653,958
Community development	7,909,900	8,126,929	907,153	(173,549)
Public works	13,962,846	12,066,315	(12,231,546)	5,147,177
Health and sanitation	3,116,962	2,763,477	894,256	513,432
Parks and recreation	3,938,834	2,910,615	2,151,321	567,278
Water and sewer	-	-	(3,430,049)	-
Interest on long-term debt	4,997,583	5,331,070	4,997,583	5,331,070
Water fund	8,718,973	10,999,925	(122,800)	(4,802,484)
Sewer fund	9,673,907	14,242,086	731,270	(272,983)
Municipal golf course	1,204,675	1,167,107	(84,570)	(1,438,241)
Solid waste fund	14,529,054	14,549,004	(1,079,860)	(236,758)
Total expenses	\$ 133,682,723	\$ 142,956,595	\$ 41,612,128	\$ 63,967,572

City of Allentown, Pennsylvania
 Management's Discussion and Analysis

The City relied on real estate tax, Act 511 taxes and other general revenues to fund 51.3 percent of its governmental and business-type activities in 2013.

Property taxes and other general revenues covered 68.8 percent of general government spending with the remainder coming from grants and fees for specific services. Nearly 87.6 percent of public safety spending came from the property tax and other general revenues with the remainder coming from grants, fines, and court costs. Community development costs were funded except for 11.5 percent from fees, charges for service, and the balance from Community Development Block Grant (CDBG) funding.

Public works spending was fully funded majority through capital grants and contributions. Health and sanitation received all but 28.7 percent of its revenue from program revenues, 86.1 percent of which was in the form of grants. Parks and recreation expenses were covered 45.4 percent by program revenues with the remainder coming from property tax and other general revenues.

Operations of the 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, 2013, net of accumulated depreciation, was \$198 million. Capital assets consist primarily of land, buildings, equipment, and infrastructure. Table A-6 is a summary of capital assets at December 31, 2013 and 2012.

Table A-6: Capital assets at December 31, 2013 and 2012

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land and land improvements	\$ 8,409,945	\$ 8,409,945	\$ 1,134,759	\$ 3,759,049	\$ 9,544,704	\$ 12,168,994
Assets under concession lease	68,103,396	-	-	-	68,103,396	-
Buildings and improvements	65,138,396	39,457,662	2,525,670	30,430,688	67,664,066	69,888,350
Vehicles, machinery and equipment	15,434,213	16,693,744	2,273,191	14,682,999	17,707,404	31,376,743
Distribution and collection systems	-	-	29,707	38,736,495	29,707	38,736,495
Infrastructure	34,986,539	35,728,741	-	-	34,986,539	35,728,741
Total	\$ 192,072,489	\$ 100,290,092	\$ 5,963,327	\$ 87,609,231	\$ 198,035,816	\$ 187,899,323

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

City of Allentown, Pennsylvania
Management's Discussion and Analysis

Debt Administration

Long-term debt:

At December 31, 2013, the City had \$101.5 million of debt outstanding, including bonds, notes, and capital leases. This was a net decrease of \$25.6 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	
	2013	2012	2013	2012	2013	2012
Capital lease	\$ 853,070	\$ 654,732	\$ 411,604	\$ 644,817	\$ 1,264,674	\$ 1,299,549
Bonds and notes	70,817,568	72,470,151	-	20,976,200	70,817,568	93,446,351
Loan	-	-	-	2,140,123	-	2,140,123
Pension obligation bonds	29,445,000	30,280,000	-	-	29,445,000	30,280,000
Total	\$ 101,115,638	\$ 103,404,883	\$ 411,604	\$ 23,761,140	\$ 101,527,242	\$ 127,166,023

In 2013, the City defeased and paid \$23.6 million of business-type long term debt obligations.

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, 2013 was approximately \$220.9 million, and the total debt outstanding was \$101.1 million, which is below the legal debt limit. The City's net non-electoral and lease rental debt limit at December 31, 2013 was approximately \$309.3 million and the total debt outstanding was \$71.7 million. For computation purposes, the \$101.1 million has been reduced by \$29.4 million, which is the outstanding balance of the 2004 General Obligation bond issue used to finance the City's pension funding liability as allowed by statute.

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

Bond rating

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

GOVERNMENTAL FUNDS

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

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

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

Governmental fund revenues

Governmental fund revenues by source for the years ended December 31, 2013 and 2012 were as follows. Table A-8 also presents changes from 2012 to 2013.

Table A-8: Revenues by source, governmental funds

	2013	2012	Changes from 2012 to 2013	Percent change
Revenues:				
Taxes	\$ 57,865,676	\$ 55,787,638	\$ 2,078,038	3.7
Licenses and permits	5,781,973	5,250,576	531,397	10.1
Charges for services	6,615,357	4,898,943	1,716,414	35.0
Fines and forfeits	672,105	634,724	37,381	5.9
Investment earnings	69,236	19,686	49,550	251.7
Intergovernmental revenues	49,185,888	26,927,447	22,258,441	82.7
Other	3,961,421	3,945,339	16,082	0.4
Total revenues	\$ 124,151,656	\$ 97,464,353	\$ 26,687,303	27.4

Governmental fund revenues totaled \$124.2 million for the year ended December 31, 2013. This is an increase of \$26.7 million from 2012, primarily due to an increase in the amount of capital and operating grants received. Taxes increased primarily due to earned income tax. Charges for service increased \$1.7 million due to the arbitration settlement of the signatories.

City of Allentown, Pennsylvania
Management's Discussion and Analysis

Governmental fund expenditures

Governmental fund expenditures by function for the years ended December 31, 2013 and 2012 were as follows. Table A-9 also presents changes from 2012 to 2013.

Table A-9: Expenditures by function, governmental funds

	2013	2012	Changes from 2012 to 2013	Percent change
Expenditures:				
General government	\$ 18,108,503	\$ 14,417,230	\$ 3,691,273	25.6
Public safety	196,455,831	53,491,745	142,964,086	267.3
Community development	7,669,312	7,835,133	(165,821)	(2.1)
Public works	12,262,727	9,658,216	2,604,511	27.0
Health and sanitation	3,420,443	2,673,529	746,914	27.9
Parks and recreation	3,963,487	2,467,730	1,495,757	60.6
Debt service:				
Principal	3,874,400	3,395,750	478,650	14.1
Interest	3,827,906	4,180,843	(352,937)	(8.4)
Capital outlay	28,386,348	10,610,482	17,775,866	167.5
Total expenditures	<u>\$ 277,968,957</u>	<u>\$ 108,730,658</u>	<u>\$ 169,238,299</u>	<u>155.6</u>

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

Governmental fund expenditures totaled \$278 million for the year ended December 31, 2013, a increase of 155.6 percent from 2012. This change was primarily due to loaning of funds, and subsequent loan forgiveness, to the City's pension funds and capital projects spending.

City of Allentown, Pennsylvania
 Management's Discussion and Analysis

Governmental fund balances and net position of enterprise funds

Table A-10 reflects ending fund balances for governmental funds and the net position for proprietary funds at December 31, 2013 and 2012.

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

	2013		2012	
	Governmental Funds	Enterprise Funds	Governmental Funds	Enterprise Funds
General	\$ 46,404,650	\$ -	\$ (741,172)	\$ -
Liquid Fuels Fund	1,363,903	-	1,174,362	-
Community Development				
Block Grant	5,165,373	-	4,603,697	-
Trexler	(151,609)	-	(29,306)	-
Capital Projects	897,778	-	3,373,173	-
E-911	730,332	-	632,705	-
Revolving Loan	1,327,575	-	1,096,885	-
Water Fund	-	-	-	51,432,733
Sewer Fund	-	-	-	21,866,075
Municipal Golf Course	-	2,614,239	-	2,853,479
Solid Waste Fund	-	9,630,834	-	9,212,328
Total	\$ 55,738,002	\$ 12,245,073	\$ 10,110,344	\$ 85,364,615

The City's governmental funds reported a combined fund balance of \$55.7 million at December 31, 2013. Of the total, \$5.2 million is restricted for CDBG projects, \$.9 million is restricted for capital acquisitions, \$1.4 million is restricted for liquid fuels, \$1.3 million is restricted for the revolving loan fund, \$.7 million is restricted for the E-911 fund, \$.1 million is restricted for community development in the General Fund, and \$.7 million is restricted for pension benefits in the General Fund.

The General Fund balance increase of \$47.1 million is due to the transfer of current assets and liabilities, because of the closing of the Water and Sewer Funds.

The City's Capital Projects Fund balance decreased \$2.5 million as a result of an increase in spending on capital infrastructure projects.

The decrease in the proprietary fund net position of \$73.1 million is due to the elimination of the water and sewer funds.

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 \$9.5 million during the year from the original budget of \$87.9 million to the final budget of \$97.4 million. Actual revenues were \$5.6 million below the final budget. This variance was partly due to the \$4.3 million decrease in other grants/miscellaneous. In addition, total other income revenues were \$1.8 million lower than estimated largely due to miscellaneous income not received.

The general fund budget for expenditures increased \$170.2 million during the year from the original budget of \$82.2 million to the final budget of \$252.4 million, primarily due to the Agreement and subsequent loaning of funds, and subsequent loan forgiveness, to the City's pension plans. Actual expenditures were \$17.2 million lower than the amended budget. This was achieved by acknowledging the decline in revenue and putting general spending restraints in place.

Economic Condition and Outlook

LOCATION & DEMOGRAPHIC ADVANTAGES

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

Known as "The City Without Limits", the City is strategically located within a 300 mile radius of the largest metropolitan areas on the eastern seaboard of the United States. Excellent transportation systems and close proximity to both New York and Philadelphia make it attractive to businesses and families desiring to live in a community that offers clean air, good water, diverse neighborhoods and over 2000 acres of the best municipal parks and recreation systems in the country – including a trout hatchery located in a serene wooded topography – *and* an award winning municipal golf course that hosted 44,000 rounds of golf in 2013.

ECONOMIC DEVELOPMENT ACHIEVEMENTS

The City has long served as the economic engine for the Lehigh Valley. The City is home to a number of major corporate headquarters, including international energy provider PPL (a Fortune 500 company). The City has the largest employment concentration in the region. Within the City's boundaries the Allentown School District and the government of Lehigh County combine to employ more than 3,941 people in the public sector.

Allentown is home to two nationally respected institutions of higher education: Muhlenberg College and Cedar Crest College. Together they have full-time enrollments of over 4,300 students and employment for over 2,178 personnel. Also, a branch campus of the Lehigh Carbon Community College is located in the heart of the City's Downtown.

Major regional health care institutions employ more than 3,201 people within Allentown. Lehigh Valley Hospital, Sacred Heart Hospital and St. Luke's each maintain various acute-care facilities across the City.

2013 was a year of extraordinary economic growth and building in the heart of Downtown Allentown. Significant material progress was made on the construction of five major new buildings in the center of the City: an arena which will serve as home to the Phantoms – the top American Hockey League (AHL) team of the Philadelphia Flyers (this arena will have a capacity of 8500 seats for hockey and 10,000 for concerts); a 180-room Marriott Renaissance Hotel attached to the arena; and three new office buildings including the 11-floor newly relocated headquarters of National Penn Bancshares, scheduled to open in the Spring of 2014. This \$500MM worth of new construction is scheduled to be completed, occupied and operational in 2014, resulting in several thousand new jobs; hundreds of thousands of new visitors to Downtown; and the contribution of significant new ratables to the City's real estate tax rolls.

This economic development success comes as a direct result of state legislation, (Neighborhood Improvement Zone - NIZ). Passed in 2009 and 2011 and unique to the City of Allentown, this law allows the City to use certain tax revenues to rebuild its downtown core and waterfront areas with the specific purpose of generating millions of dollars of investment in new job creating projects. The NIZ stretches from the City's center to its Lehigh River waterfront.

Over the years, the government, corporate, education and health sector entities cited above historically provided a primary base for the City's job market. Now, as a result of the NIZ, beginning with 2014 and carrying through for the next decade, Allentown will experience extraordinary employment growth in such sectors as legal and financial services; banking; insurance; financial planning, tourism, entertainment; destination visiting and similar services. This sector of the economy epitomizes the service industry with its orientation towards office use and paper and data handling, an area which has shown considerable growth in this decade. Along with what is noted above, the City and Lehigh County continue to seek ways to attract new businesses to the area. These new businesses stimulate the economy by providing jobs and other economic benefits derived from productive employment.

It is important to note that that the Allentown Neighborhood Improvement Zone Development Authority (ANIZDA) has made it a priority of the Authority that businesses benefitting from the advantages of the NIZ make every effort to hire local Allentown residents – especially those

living within and close to the NIZ. Several major Job Fairs are scheduled for 2014 in order to insure that these goals and policies are complied with. The Authority has created a Committee of its members to pursue this key priority.

Beyond the NIZ, in 2013, the City continued to pursue residential and commercial development at multiple sites, including the expanded redevelopment of Hamilton Street in Center City Allentown through local initiatives and state and local partnerships such as Keystone Opportunity Zones (KOZ) and offering designated land parcels with a greatly reduced tax burden for residents and businesses. Efforts continue to further expand potential development at other such critically important sites as the Queen City Airport and the former Allentown State Hospital.

Manufacturing employment in the Allentown-Bethlehem Metropolitan Statistical Areas in the apparel, food, electrical/electronic equipment, industrial machinery and printing and publishing areas are strong components of the overall employment picture. Air Products, Lehigh Portland Cement, Nestle, Olympus and LSI have selected the area as their headquarters or as the location of principal facilities.

PROGRESS ON ANOTHER MOST IMPORTANT FRONT

Equally as important as the building and development that took place in the NIZ was to the financial health and future of Allentown in 2013 was the successful closing of the 50-year Concession Lease Agreement (CLA) with the Lehigh County Authority (LCA). This agreement allows LCA to operate Allentown's water/sewer system in exchange for a \$211MM upfront payment, plus a \$500K annual payment beginning in year 4 (2016) of the lease. This upfront payment allowed the City to eliminate the most serious financial problem ever to threaten its future: its enormous unfunded pension liability. Dealing with this problem put Allentown on a firm financial footing for well into its future. Both S&P and Moody's rating agencies followed up the closing with favorable comments on this important transaction.

SUMMARY

2013 was a year of monumental development and accomplishment towards the City of Allentown achieving long-term financial and community stability. Yet, Management recognized this is just the beginning of an ongoing process. There is still much work to be done in being effective stewards of the City's resources. While most City expenses throughout 2013 remained relatively stable due to stringent monitoring and management practices, certain areas continue to increase at rates above the Consumer Price Index. Revenue initiatives and cost control measures continue to be implemented in order to counter this situation. City Administration, working with Council and the City Controller, will lead the way to insuring that the successes of 2013 will be preserved and capitalized on in the years to come.

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.

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CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF NET POSITION

DECEMBER 31, 2013

Assets	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
Current assets:				
Cash and cash equivalents	\$ 54,339,362	\$ 4,191,845	\$ 58,531,207	\$ 1,063,596
Cash and cash equivalents - restricted	-	-	-	89,220
Investments - restricted	6,008,729	-	6,008,729	1,225,000
Receivables (net of allowance for uncollectible):				
Taxes	12,790,697	-	12,790,697	-
Accounts	2,983,689	1,011,444	3,995,133	135,212
Grants	5,528,741	-	5,528,741	-
Other current assets	5,749	-	5,749	1,461
Inventory	-	38,511	38,511	24,347
Prepaid expenses	-	-	-	433,429
Prepaid debt insurance	891,797	-	891,797	-
Due from pension trust funds	25,157	-	25,157	-
Due from other governments	-	-	-	106,835
Internal balances	(2,945,581)	2,945,581	-	-
Total current assets	79,628,340	8,187,381	87,815,721	3,079,100
Noncurrent assets:				
Capital assets, net:				
Land	8,409,945	1,134,759	9,544,704	8,495,248
Assets under concession lease	68,103,396	-	68,103,396	-
Buildings	5,665,675	754,873	6,420,548	-
Land and building improvements	14,058,447	1,770,797	15,829,244	30,913,198
Machinery and equipment	12,239,874	1,258,062	13,497,936	609,516
Vehicles	3,194,339	1,015,129	4,209,468	64,979
Distribution and collection systems	-	29,707	29,707	-
Construction in progress	45,414,274	-	45,414,274	38,438
Infrastructure	34,986,539	-	34,986,539	-
Total capital assets, net	192,072,489	5,963,327	198,035,816	40,121,379
Net pension asset	152,657,148	-	152,657,148	-
Loans and notes receivable	6,031,624	-	6,031,624	1,041,523
Utility system concession lease receivable	23,300,000	-	23,300,000	-
Property held for development	689,700	-	689,700	116,326
Total noncurrent assets	374,750,961	5,963,327	380,714,288	41,279,228
Total Assets	454,379,301	14,150,708	468,530,009	44,358,328
Deferred Outflows of Resources				
Deferred charge on refunding	-	-	-	90,888
Total Deferred Outflows of Resources	-	-	-	90,888

(Continued)

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
Liabilities				
Current liabilities:				
Accounts payable and other current liabilities	7,460,772	1,001,493	8,462,265	394,811
Wages payable	1,101,390	42,729	1,144,119	-
Accrued interest payable	828,196	-	828,196	-
Claims liability	785,314	-	785,314	-
Other liabilities	3,633,357	91,991	3,725,348	101,463
Due to pension trust funds	41,709	-	41,709	-
Due to other governments	10,286	-	10,286	-
Compensated absences	3,185,336	141,316	3,326,652	-
Unearned revenue	646,408	-	646,408	253,256
Developer escrow deposits	-	-	-	89,220
Facility contractual obligation	1,020,810	-	1,020,810	-
Capital leases payable	181,475	123,480	304,955	134,080
Line of credit	-	-	-	340,853
Notes and bonds payable, current maturities	4,453,300	-	4,453,300	916,250
Total current liabilities	23,348,353	1,401,009	24,749,362	2,229,933
Noncurrent liabilities:				
Capital leases payable	671,595	288,124	959,719	406,902
Compensated absences	358,629	17,697	376,326	-
Unearned revenue	-	-	-	9,266,642
Other post-employment benefit liability	9,514,311	198,805	9,713,116	86,163
Notes and bonds payable	95,809,268	-	95,809,268	14,391,250
Total noncurrent liabilities	106,353,803	504,626	106,858,429	24,150,957
Total Liabilities	129,702,156	1,905,635	131,607,791	26,380,890
Deferred Inflows of Resources				
Utility system concession lease	216,988,383	-	216,988,383	-
Deferred charge on refunding	350,915	-	350,915	-
Total Deferred Inflows of Resources	217,339,298	-	217,339,298	-
Net Position				
Net investment in capital assets	126,410,580	5,551,723	131,962,303	24,097,932
Restricted for:				
Capital acquisitions	897,778	-	897,778	-
Public works	1,363,903	-	1,363,903	-
Community development	6,631,548	-	6,631,548	977,220
Public safety	730,332	-	730,332	-
Pension benefits	153,312,606	-	153,312,606	-
Unrestricted	(182,008,900)	6,693,350	(175,315,550)	(7,006,826)
Total Net Position	\$ 107,337,847	\$ 12,245,073	\$ 119,582,920	\$ 18,068,326

(Concluded)

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

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013

Functions/Programs:	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 16,865,074	\$ 4,080,763	\$ 6,630,443
Public safety	48,764,915	3,820,867	1,966,911
Community development	7,909,900	3,839,739	3,149,868
Public works	13,962,846	277,561	2,078,880
Health and sanitation	3,116,962	309,931	1,912,775
Parks and recreation	3,938,834	461,267	1,271,365
Water and sewer	-	3,430,049	-
Interest on long-term debt	4,997,583	-	-
Total governmental activities	99,556,114	16,220,177	17,010,242
Business-type activities:			
Water Fund	8,718,973	8,782,028	59,745
Sewer Fund	9,673,907	8,798,348	144,289
Solid Waste Fund	14,529,054	14,935,518	673,396
Municipal Golf Course	1,204,675	1,279,247	9,998
Total business-type activities	34,126,609	33,795,141	887,428
Total primary government	\$ 133,682,723	\$ 50,015,318	\$ 17,897,670
Component units:			
Redevelopment Authority of the City of Allentown	\$ 2,159,587	\$ 120,579	\$ 395,211
Allentown Parking Authority	5,123,534	5,562,680	-
Total component units	\$ 7,283,121	\$ 5,683,259	\$ 395,211
General revenues:			
Property taxes			
Act 511			
Utility realty			
Deed transfer tax			
Grants and contributions not restricted to specific purposes			
Investment earnings			
Transfers			
Special items:			
Gain on cancellation of post-employment benefits			
Loss on extinguishment of debt			
Total general revenues, transfers, and special items			
Change in Net Position			
Net Position:			
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 Position

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
\$ -	\$ (6,153,868)	\$ -	\$ (6,153,868)	\$ -
251,635	(42,725,502)	-	(42,725,502)	-
13,140	(907,153)	-	(907,153)	-
23,837,951	12,231,546	-	12,231,546	-
-	(894,256)	-	(894,256)	-
54,881	(2,151,321)	-	(2,151,321)	-
-	3,430,049	-	3,430,049	-
-	(4,997,583)	-	(4,997,583)	-
<u>24,157,607</u>	<u>(42,168,088)</u>	<u>-</u>	<u>(42,168,088)</u>	<u>-</u>
-	-	122,800	122,800	-
-	-	(731,270)	(731,270)	-
-	-	1,079,860	1,079,860	-
-	-	84,570	84,570	-
-	-	555,960	555,960	-
<u>\$ 24,157,607</u>	<u>(42,168,088)</u>	<u>555,960</u>	<u>(41,612,128)</u>	<u>-</u>
\$ -	-	-	-	(1,643,797)
-	-	-	-	439,146
<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,204,651)</u>
	29,616,680	-	29,616,680	-
	27,471,828	-	27,471,828	-
	71,164	-	71,164	-
	872,116	-	872,116	-
	10,290,239	-	10,290,239	-
	69,236	132,218	201,454	6,470
	71,674,238	(71,674,238)	-	-
	-	660,819	660,819	-
	-	(1,959,898)	(1,959,898)	-
	<u>140,065,501</u>	<u>(72,841,099)</u>	<u>67,224,402</u>	<u>6,470</u>
	97,897,413	(72,285,139)	25,612,274	(1,198,181)
	9,440,434	84,530,212	93,970,646	19,266,507
	<u>\$ 107,337,847</u>	<u>\$ 12,245,073</u>	<u>\$ 119,582,920</u>	<u>\$ 18,068,326</u>

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

CITY OF ALLENTOWN, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2013

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 42,246,684	\$ 1,200,129	\$ 3,823,240	\$ 47,270,053
Investments - restricted	-	6,008,729	-	6,008,729
Receivables:				
Taxes	12,790,697	-	-	12,790,697
Loans	138,600	-	5,893,024	6,031,624
Accounts	2,448,313	421,981	113,395	2,983,689
Grants	693,342	3,495,783	1,339,616	5,528,741
Utility system concession lease	23,300,000	-	-	23,300,000
Interest	-	-	5,749	5,749
Due from pension trust funds	25,157	-	-	25,157
Due from other funds	6,533,130	1,806,840	258,568	8,598,538
Total Assets	\$ 88,175,923	\$ 12,933,462	\$ 11,433,592	\$ 112,542,977
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable	\$ 2,938,668	\$ 3,651,868	\$ 252,531	\$ 6,843,067
Wages payable	1,061,776	-	36,769	1,098,545
Due to other funds	1,273,492	8,127,042	2,143,585	11,544,119
Due to pension trust funds	41,709	-	-	41,709
Due to other governments	10,286	-	-	10,286
Unearned revenue	-	135,929	510,479	646,408
Other liabilities	3,457,858	120,845	54,654	3,633,357
Total Liabilities	8,783,789	12,035,684	2,998,018	23,817,491
Deferred Inflows of Resources:				
Unavailable revenue - taxes	8,806,767	-	-	8,806,767
Unavailable revenue - utilities	880,717	-	-	880,717
Unavailable revenue - utility system concession lease	23,300,000	-	-	23,300,000
Total deferred inflows of resources	32,987,484	-	-	32,987,484
Fund Balance:				
Restricted	794,058	897,778	8,587,183	10,279,019
Assigned	21,588,122	-	-	21,588,122
Unassigned	24,022,470	-	(151,609)	23,870,861
Total Fund Balance	46,404,650	897,778	8,435,574	55,738,002
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 88,175,923	\$ 12,933,462	\$ 11,433,592	\$ 112,542,977

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

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

DECEMBER 31, 2013

Total Fund Balance - Governmental Funds \$ 55,738,002

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. 192,072,489

Property held for development in governmental activities is not a financial resource and, therefore, is not reported as an asset in governmental funds. 689,700

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the governmental funds. 9,687,484

Net pension asset included on the statement of net position. 152,657,148

Prepaid debt insurance is reported as an asset and amortized on the statement of net position. 891,797

Utility system concession lease is required to be amortized over the life of the lease for governmental activities, but the initial payment is considered available for purposes of the fund statements. (193,688,383)

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	\$ (828,196)	
Facility contractual obligation	(1,020,810)	
Notes and bonds payable	(100,262,568)	
Capital leases payable	(853,070)	
Compensated absences	(3,530,493)	
Other post-employment benefits liability	(9,514,311)	
Deferred charge on refunding	(350,915)	
		(116,360,363)

Assets and liabilities of the internal service fund reported in the statement of net position are used to charge the costs of insurance to individual funds and are not reported in the governmental funds.

5,649,973

Total Net Position - Governmental Activities \$ 107,337,847

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, 2013

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 57,865,676	\$ -	\$ -	\$ 57,865,676
Licenses and permits	5,781,973	-	-	5,781,973
Charges for services	6,368,031	247,326	-	6,615,357
Fines and forfeits	672,105	-	-	672,105
Investment earnings	67,040	1,802	394	69,236
Intergovernmental revenues	18,456,852	24,157,607	6,571,429	49,185,888
Other	1,567,167	2,987	2,391,267	3,961,421
Total revenues	90,778,844	24,409,722	8,963,090	124,151,656
Expenditures:				
Current:				
General government	16,848,037	1,254,388	6,078	18,108,503
Public safety	193,300,243	-	3,155,588	196,455,831
Community development	5,172,218	-	2,497,094	7,669,312
Public works	10,405,762	-	1,856,965	12,262,727
Health and sanitation	3,420,443	-	-	3,420,443
Parks and recreation	2,775,625	-	1,187,862	3,963,487
Debt service:				
Principal	-	-	3,874,400	3,874,400
Interest	-	-	3,827,906	3,827,906
Capital outlay	895,346	27,356,656	134,346	28,386,348
Total expenditures	232,817,674	28,611,044	16,540,239	277,968,957
Deficiency of Revenues Under Expenditures	(142,038,830)	(4,201,322)	(7,577,149)	(153,817,301)
Other Financing Sources (Uses):				
Transfers in	201,264,189	3,725,927	8,788,967	213,779,083
Transfers out	(12,182,487)	(2,000,000)	(254,587)	(14,437,074)
Capital lease	102,950	-	-	102,950
Total other financing sources	189,184,652	1,725,927	8,534,380	199,444,959
Net Change in Fund Balance	47,145,822	(2,475,395)	957,231	45,627,658
Fund Balance:				
Beginning of year	(741,172)	3,373,173	7,478,343	10,110,344
End of year	<u>\$ 46,404,650</u>	<u>\$ 897,778</u>	<u>\$ 8,435,574</u>	<u>\$ 55,738,002</u>

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

CITY OF ALLENTOWN, PENNSYLVANIA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

Net Change in Fund Balance - Governmental Funds	\$ 45,627,658
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.	28,386,348
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources; therefore, depreciation expense is not reported as expenditures in governmental funds.	(4,966,360)
The net effect of various transactions involving capital assets (e.g., disposals and capital contributions) is to decrease net position.	(151,977)
Revenues related to real estate and other taxes are revenue in the statement of activities. Those that do not provide current financial resources are not reported as revenues in the funds.	(49,688)
Compensated absence expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(386,392)
Activities of the internal service fund are reported as net expense in the statement of activities.	5,649,973
Change in net pension asset not reflected in the funds.	149,961,519
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds.	(102,950)
Principal payments on capital leases consumes the current financial resources of governmental funds.	142,350
The repayment of principal of long-term debt consumes the current financial resources of governmental funds.	3,874,400
The accretion of capital appreciation bonds does not consume current financial resources of governmental funds.	(1,381,773)
Governmental funds report the effect of debt insurance, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.	6,499
Accrued interest expense on long-term debt is reported in the statement of activities but does not require the use of current financial resources.	30,755
Other post-employment benefits are reported in the statement of activities but do not require the use of current financial resources.	(1,880,804)
The transfer from the Water and Sewer Utility System Concession and Lease Agreement is considered available for fund purposes, but reported as a deferred inflow of resources in the statement of net position.	(128,489,778)
The deferred inflow of resources from the utility system concession lease is amortized over the life of the lease in the statement of activities.	1,627,633
Change in Net Position - Governmental Activities	\$ <u>97,897,413</u>

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

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF NET POSITION PROPRIETARY FUNDS

DECEMBER 31, 2013

	Water Fund	Sewer Fund
Assets		
Current assets:		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable:		
Refuse collection	-	-
Grant	-	-
Other	-	-
Total accounts receivable	-	-
Allowance for doubtful accounts	-	-
Net accounts receivable	-	-
Due from other funds	-	-
Inventories	-	-
Total current assets	-	-
Noncurrent assets:		
Capital assets, net:		
Land	-	-
Buildings	-	-
Land and building improvements	-	-
Machinery and equipment	-	-
Vehicles	-	-
Distribution and collection systems	-	-
Total capital assets	-	-
Accumulated depreciation	-	-
Net capital assets	-	-
Total noncurrent assets	-	-
Total Assets	-	-

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

Business-type Activities - Enterprise Funds

<u>Solid Waste Fund</u>	<u>Non-Major Fund Municipal Golf Course</u>	<u>Total</u>	<u>Internal Service Fund</u>
\$ 4,190,445	\$ 1,400	\$ 4,191,845	\$ 7,069,309
1,780,618	-	1,780,618	-
264,539	-	264,539	-
-	13,358	13,358	-
2,045,157	13,358	2,058,515	-
1,047,071	-	1,047,071	-
998,086	13,358	1,011,444	-
3,001,161	-	3,001,161	-
-	38,511	38,511	-
8,189,692	53,269	8,242,961	7,069,309
-	1,134,759	1,134,759	-
1,017,066	227,475	1,244,541	-
1,477,128	3,273,182	4,750,310	-
2,549,969	1,039,629	3,589,598	-
3,737,588	230,510	3,968,098	-
-	37,465	37,465	-
8,781,751	5,943,020	14,724,771	-
(5,618,895)	(3,142,549)	(8,761,444)	-
3,162,856	2,800,471	5,963,327	-
3,162,856	2,800,471	5,963,327	-
11,352,548	2,853,740	14,206,288	7,069,309

(Continued)

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

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF NET POSITION PROPRIETARY FUNDS

DECEMBER 31, 2013
(Continued)

	Water Fund	Sewer Fund
Liabilities		
Liabilities:		
Current liabilities:		
Accounts payable	-	-
Wages payable	-	-
Claims liability	-	-
Other liabilities	-	-
Due to other funds	-	-
Compensated absences	-	-
Capital leases payable	-	-
Total current liabilities	-	-
Noncurrent liabilities:		
Capital leases payable	-	-
Compensated absences	-	-
Other post-employment benefit liability	-	-
Total noncurrent liabilities	-	-
Total Liabilities	-	-
Total Liabilities	-	-
Net Position		
Net investment in capital assets	-	-
Unrestricted	-	-
Total Net Position	\$ -	\$ -

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

Business-type Activities - Enterprise Funds			
Solid Waste Fund	Non-Major Fund Municipal Golf Course	Total	Internal Service Fund
991,630	9,863	1,001,493	617,705
34,887	7,842	42,729	2,845
-	-	-	785,314
91,430	561	91,991	-
-	55,580	55,580	-
116,202	25,114	141,316	12,109
88,829	34,651	123,480	-
<u>1,322,978</u>	<u>133,611</u>	<u>1,456,589</u>	<u>1,417,973</u>
185,379	102,745	288,124	-
14,552	3,145	17,697	1,363
198,805	-	198,805	-
<u>398,736</u>	<u>105,890</u>	<u>504,626</u>	<u>1,363</u>
<u>1,721,714</u>	<u>239,501</u>	<u>1,961,215</u>	<u>1,419,336</u>
<u>1,721,714</u>	<u>239,501</u>	<u>1,961,215</u>	<u>1,419,336</u>
2,888,648	2,663,075	5,551,723	-
6,742,186	(48,836)	6,693,350	5,649,973
<u>\$ 9,630,834</u>	<u>\$ 2,614,239</u>	<u>\$ 12,245,073</u>	<u>\$ 5,649,973</u>

(Concluded)

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

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2013

	Water Fund	Sewer Fund
Operating Revenues:		
<hr/>		
Charges for services:		
Metered charges	\$ 7,036,809	\$ 4,322,084
Refuse collections	-	-
Recycling	-	-
Other charges	1,402,117	4,235,283
Miscellaneous	343,102	240,981
Total operating revenues	8,782,028	8,798,348
Operating Expenses:		
<hr/>		
Personnel services	3,981,000	4,582,788
Utility services	495,553	525,132
Contracted services	2,029,472	1,784,094
Materials and supplies	230,248	991,119
Claims and benefits	-	-
Depreciation and amortization	1,588,986	1,346,938
Miscellaneous	167,354	170,934
Total operating expenses	8,492,613	9,401,005
Operating Income (Loss)	289,415	(602,657)
Non-Operating Revenues (Expenses):		
<hr/>		
Interest income	83,297	48,921
Interest expense	(226,360)	(272,902)
Gain on disposal of assets	-	-
Grants	59,745	144,289
Total non-operating revenues (expenses)	(83,318)	(79,692)
Change in net position before transfers and special items	206,097	(682,349)
Transfers in	70,876,792	59,612,986
Transfers out	(121,526,850)	(79,652,002)
Special items:		
Gain on cancellation of post-employment benefits	308,614	352,205
Loss on extinguishment of debt	(989,553)	(970,345)
Change in Net Position	(51,124,900)	(21,339,505)
Net Position:		
<hr/>		
Beginning of year, restated	51,124,900	21,339,505
End of year	\$ -	\$ -

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

Business-type Activities - Enterprise Funds

Solid Waste Fund	Non-Major Fund Municipal Golf Course	Totals	Internal Service Fund
\$ -	\$ -	\$ 11,358,893	\$ -
14,179,869	-	14,179,869	-
441,267	-	441,267	-
-	1,132,978	6,770,378	23,402,026
314,382	146,269	1,044,734	22,153
<u>14,935,518</u>	<u>1,279,247</u>	<u>33,795,141</u>	<u>23,424,179</u>
2,421,824	727,167	11,712,779	-
16,012	14,964	1,051,661	-
10,968,120	65,637	14,847,323	-
370,221	211,482	1,803,070	-
-	-	-	17,718,829
552,542	182,457	3,670,923	-
200,335	2,968	541,591	-
<u>14,529,054</u>	<u>1,204,675</u>	<u>33,627,347</u>	<u>17,718,829</u>
406,464	74,572	167,794	5,705,350
-	-	132,218	-
-	-	(499,262)	-
4,458	-	4,458	-
668,938	9,998	882,970	3,333
<u>673,396</u>	<u>9,998</u>	<u>520,384</u>	<u>3,333</u>
1,079,860	84,570	688,178	5,708,683
-	-	130,489,778	-
(661,354)	(323,810)	(202,164,016)	(58,710)
-	-	660,819	-
-	-	(1,959,898)	-
<u>418,506</u>	<u>(239,240)</u>	<u>(72,285,139)</u>	<u>5,649,973</u>
9,212,328	2,853,479	84,530,212	-
<u>\$ 9,630,834</u>	<u>\$ 2,614,239</u>	<u>\$ 12,245,073</u>	<u>\$ 5,649,973</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, 2013

	Water Fund	Sewer Fund
Cash Flows From Operating Activities:		
Receipts from customers and users	\$ 12,200,471	\$ 12,123,280
Payments to suppliers for services	(4,077,733)	(3,830,948)
Payments to employees	(4,392,341)	(5,061,544)
Net cash provided by operating activities	3,730,397	3,230,788
Cash Flows From Non-Capital Financing Activities:		
Operating grants received	59,745	144,289
Transfer in	2,000,000	-
Transfers out	(122,631,486)	(74,478,013)
Net cash used in non-capital financing activities	(120,571,741)	(74,333,724)
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(4,774,633)	(346,684)
Advance from/to other fund	(1,072,678)	(429,536)
Proceeds from issuance of capital debt	3,023,547	-
Principal paid on capital debt	(5,575,270)	-
Proceeds from lease	130,808,582	80,523,633
Payment to bond escrow agent	(9,312,582)	(12,201,472)
Payments of obligations under capital leases	(14,639)	(31,882)
Proceeds from disposal of assets	-	-
Interest paid on long-term obligations	(202,152)	(216,779)
Net cash provided by (used in) capital and related financing activities	112,880,175	67,297,280
Net Increase (Decrease) in Cash and Cash Equivalents	(3,961,169)	(3,805,656)
Cash and Cash Equivalents:		
Beginning of year	3,961,169	3,805,656
End of year	\$ -	\$ -
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 289,415	\$ (602,657)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,588,986	1,346,938
Changes in:		
Accounts receivable	3,418,443	3,324,932
Inventories	-	-
Accounts payable	(1,158,617)	(359,669)
Accrued payroll	(78,499)	(90,369)
Claims liability	-	-
Other liabilities	3,511	-
Compensated absences	(332,842)	(388,387)
Other post-employment benefit liability	-	-
Total adjustments	3,440,982	3,833,445
Net cash provided by operating activities	\$ 3,730,397	\$ 3,230,788
Non-Cash Capital and Related Financing Activities:		
Transfer of capital assets	\$ -	\$ (272,174)
Issuance of capital lease	\$ -	\$ -

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

Business-type Activities - Enterprise Funds

Solid Waste Fund	Non-Major Fund Municipal Golf Course	Totals	Internal Service Fund
\$ 14,765,306	\$ 1,265,889	\$ 40,354,946	\$ 23,591,973
(11,686,365)	(298,895)	(19,893,941)	(18,972,302)
(2,352,912)	(726,214)	(12,533,011)	(1,166)
<u>726,029</u>	<u>240,780</u>	<u>7,927,994</u>	<u>4,618,505</u>
668,938	9,998	882,970	3,333
-	-	2,000,000	-
(698,231)	(274,365)	(198,082,095)	(58,710)
<u>(29,293)</u>	<u>(264,367)</u>	<u>(195,199,125)</u>	<u>(55,377)</u>
(270,411)	(45,500)	(5,437,228)	-
26,728	-	(1,475,486)	1,222,164
-	-	3,023,547	-
-	-	(5,575,270)	-
-	-	211,332,215	-
-	-	(21,514,054)	-
(86,350)	(34,108)	(166,979)	-
4,458	2,673	7,131	-
-	-	(418,931)	-
<u>(325,575)</u>	<u>(76,935)</u>	<u>179,774,945</u>	<u>1,222,164</u>
371,161	(100,522)	(7,496,186)	5,785,292
3,819,284	101,922	11,688,031	1,284,017
<u>\$ 4,190,445</u>	<u>\$ 1,400</u>	<u>\$ 4,191,845</u>	<u>\$ 7,069,309</u>
\$ 406,464	\$ 74,572	\$ 167,794	\$ 5,705,350
552,542	182,457	3,670,923	-
(170,212)	(13,358)	6,559,805	167,794
-	(109)	(109)	-
(128,527)	(3,521)	(1,650,334)	(1,226,683)
3,701	1,266	(163,901)	(2,955)
-	-	-	(26,790)
(3,150)	(214)	147	-
(14,934)	(313)	(736,476)	1,789
80,145	-	80,145	-
<u>319,565</u>	<u>166,208</u>	<u>7,760,200</u>	<u>(1,086,845)</u>
<u>\$ 726,029</u>	<u>\$ 240,780</u>	<u>\$ 7,927,994</u>	<u>\$ 4,618,505</u>
\$ -	\$ -	\$ (272,174)	\$ -
<u>\$ -</u>	<u>\$ 171,504</u>	<u>\$ 171,504</u>	<u>\$ -</u>

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

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET POSITION FIDUCIARY FUNDS

DECEMBER 31, 2013

Assets	Pension Trust Fund	Agency Funds
Cash and cash equivalents	\$ -	\$ 878,607
Interest receivable	410	-
Due from City's General Fund	41,709	-
Other receivables	22,291	-
Investments, at fair value:		
Money market funds	153,599,925	-
Equity mutual funds	87,793,854	-
Bond mutual funds	30,655,373	-
Total Assets	272,113,562	878,607
Liabilities		
Accounts payable	339,443	-
Due to City's General Fund	25,157	-
Payroll tax liability	-	677,068
Due to other governments	-	201,539
Total Liabilities	364,600	\$ 878,607
Net Position		
Restricted for pension benefits	\$ 271,748,962	

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

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

YEAR ENDED DECEMBER 31, 2013

	Pension Trust Fund
Additions:	
<hr/>	
Contributions:	
Employer	\$153,866,280
Plan members	1,161,817
Total contributions	155,028,097
Investment income:	
Net appreciation in fair value of investments	19,354,009
Interest and dividends	2,496,189
Less investment expenses	(185,334)
Net investment income	21,664,864
Other income:	
Miscellaneous	55,092
Total additions	176,748,053
Deductions:	
<hr/>	
Benefits paid to recipients	24,803,020
Administrative and other fees	21,473
Total deductions	24,824,493
Increase in Net Position	151,923,560
Net Position:	
<hr/>	
Beginning of year	119,825,402
End of year	\$271,748,962

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

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF NET POSITION

COMPONENT UNITS

DECEMBER 31, 2013

Assets	Redevelopment Authority of the City of Allentown	Allentown Parking Authority	Total
Current assets:			
Cash and cash equivalents	\$ 170,542	\$ 893,054	\$ 1,063,596
Cash and cash equivalents - restricted	89,220	-	89,220
Certificates of deposit	-	1,225,000	1,225,000
Accounts receivable	834	134,378	135,212
Other current assets	-	1,461	1,461
Inventory	-	24,347	24,347
Prepaid expenses	8,974	424,455	433,429
Due from other governments	106,835	-	106,835
Total current assets	376,405	2,702,695	3,079,100
Noncurrent assets:			
Land	-	8,495,248	8,495,248
Land and building improvements	-	30,913,198	30,913,198
Machinery and equipment	-	609,516	609,516
Vehicles	-	64,979	64,979
Construction in progress	-	38,438	38,438
Total capital assets, net	-	40,121,379	40,121,379
Loans receivable	1,041,523	-	1,041,523
Property held for development	116,326	-	116,326
Total noncurrent assets	1,157,849	40,121,379	41,279,228
Total Assets	1,534,254	42,824,074	44,358,328
Deferred Outflows of Resources			
Deferred charge on refunding	-	90,888	90,888
Total Deferred Outflows of Resources	-	90,888	90,888

(Continued)

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

Liabilities	Redevelopment Authority of the City of Allentown	Allentown Parking Authority	Total
Current liabilities:			
Accounts payable and other current liabilities	21,279	373,532	394,811
Other liabilities	-	101,463	101,463
Unearned revenue	-	253,256	253,256
Developer escrow deposits	89,220	-	89,220
Line of credit	-	340,853	340,853
Notes and bonds payable, current maturities	75,000	841,250	916,250
Capital lease payable	-	134,080	134,080
Total current liabilities	185,499	2,044,434	2,229,933
Noncurrent liabilities:			
Unearned revenue	-	9,266,642	9,266,642
Other post-employment benefit liability	-	86,163	86,163
Capital lease payable	-	406,902	406,902
Bonds payable	-	14,391,250	14,391,250
Total noncurrent liabilities	-	24,150,957	24,150,957
Total Liabilities	185,499	26,195,391	26,380,890
Net Position			
Net investment in capital assets	-	24,097,932	24,097,932
Restricted	977,220	-	977,220
Unrestricted	371,535	(7,378,361)	(7,006,826)
Total Net Position	\$ 1,348,755	\$ 16,719,571	\$ 18,068,326

(Concluded)

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

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF ACTIVITIES COMPONENT UNITS

YEAR ENDED DECEMBER 31, 2013

<u>Component Units:</u>	<u>Expenses</u>	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Redevelopment Authority of the City of Allentown	Allentown Parking Authority	Total Component Units
Redevelopment Authority of the City of Allentown	\$ 2,159,587	\$ 120,579	\$ 395,211	\$ (1,643,797)	\$ -	\$ (1,643,797)
Allentown Parking Authority	5,123,534	5,562,680	-	-	439,146	439,146
Total component units	\$ 7,283,121	\$ 5,683,259	\$ 395,211	(1,643,797)	439,146	(1,204,651)
General revenues:						
Investment earnings				14	6,456	6,470
Total general revenues				14	6,456	6,470
Change in Net Position				(1,643,783)	445,602	(1,198,181)
Net Position:						
Beginning of year				2,992,538	16,273,969	19,266,507
End of year				\$ 1,348,755	\$ 16,719,571	\$ 18,068,326

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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 119,000 residents. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component units.

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

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

Redevelopment Authority of the City of Allentown

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

Allentown Parking Authority

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

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

Related Organizations

The City Council and Mayor are also responsible for appointing the members of several boards, but the City's accountability for these organizations does not extend beyond making appointments. These boards include the Allentown Commercial and Industrial Development Authority (ACIDA) and the Allentown Housing Authority.

The amounts the City appropriated to these organizations during the year ended December 31, 2013 were immaterial to the basic financial statements.

Basis of Presentation

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

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

Property and other taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period to the extent that they meet the available criteria. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund - is used to account for all financial transactions applicable to the general operations of the City except for those accounted for in another fund.

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

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

The City reports the following major proprietary funds:

Water Fund - was used to account for all costs incurred in the collection, treatment, and distribution of water for consumption, and was operated in a manner similar to a private business enterprise to be self-supporting. During the year ended December 31, 2013, the City entered into a Water and Sewer Utility System Concession and Lease Agreement (Agreement) and, subsequently, closed the Water Fund.

Sewer Fund - was used to account for the operation and maintenance of the sanitary sewage treatment plant, and was operated in a manner similar to a private business enterprise and is intended to be self-supporting. During the year ended December 31, 2013, the City entered into the Agreement and, subsequently, closed the Sewer Fund.

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

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

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

The City's fiduciary funds consist of the Pension Trust Fund and Agency Fund:

Pension Trust Fund - is used to account for pension benefits for employees. The principal revenue sources for this fund are employer and employee contributions. The Pension Trust Fund is accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. The Pension Trust Fund accounts for the City's three defined benefit pension plans: officers and employees, policemen, and firemen.

Agency Fund - is used to account for funds held in escrow for other parties. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The Agency Fund accounts for the earned income taxes, payroll withholdings, and tax collections from the Allentown School District and the City.

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

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

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

Cash and Cash Equivalents and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash of all funds, except pension trust funds and certain special revenue funds, is maintained in a cash and investment pool. Interest earnings, as well as gains and losses, are allocated to funds based on the average daily balances of funds invested in the pool. The balance recorded as cash and cash equivalents in each fund type is principally the allocation of the pooled cash balance. All investments are held in the capital projects fund and the pension trust fund. Investments are carried at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

For purposes of the statement of cash flows, the City considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly-liquid investments purchases with an original maturity of three months or less to be cash equivalents.

The City is authorized to make investments as defined in the Pennsylvania Third Class City Code and the Home Rule Charter. Authorized types of investments include the following:

- a. United States Treasury Bills.
 - b. Short-term obligations of the United States Government or its agencies or instrumentalities.
 - c. Deposits in savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance
-

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Corporation or similar agencies to the extent that such accounts are so insured, and for any amounts above the insured maximum, provided that approved collateral as provided by law therefore is pledged by the depository.

- d. Obligations of the United States Government or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- e. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for City funds listed above.
- f. Certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or similar agencies to the extent that such accounts are so insured.

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

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

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

The Parking Authority had no deposit or investment transactions during the year ended December 31, 2013 which were in violation of state statutes or applicable trust indentures.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Restricted Assets

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

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

Internal Balances

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

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Allowance for Uncollectible Receivables

All property tax, per capita tax, curb and sidewalk, water, sewer, and solid waste charges for service receivables are shown net of an allowance for uncollectibles. All allowances have been calculated based on historical collections. The allowance for property tax and per capita tax, presented in the General Fund, was approximately \$2.1 million at December 31, 2013. The allowance for curb and sidewalk charges for services, presented in the Capital Projects Fund, was approximately \$269,000 at December 31, 2013. The allowance for accounts receivable (water and sewer charges), presented in General Fund, was approximately \$2.6 million at December 31, 2013. The allowance for accounts receivable, presented in the Solid Waste Fund, was approximately \$1 million at December 31, 2013.

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

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

when purchased. The City has determined that any unused materials and supplies on hand at December 31, 2013 are immaterial.

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

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

Capital Assets

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

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

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

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

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

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

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

Property Held for Development

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental and proprietary fund types. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payment are incurred. Encumbrances outstanding at year-end for unfilled obligations of the current year budget are reappropriated in the succeeding year. The City reports encumbrances in its governmental funds as assigned fund balance, if the individual fund's fund balance is not presented as restricted. The General Fund had encumbrances of \$1,588,122 relating to contract services, operating materials, supplies, and equipment. Encumbrance accounting is used in proprietary fund types as a tool for budgetary control, but is not reported on the statement of net position. The Solid Waste Fund had encumbrances of \$367,922 related to operating supplies and equipment.

Fund Balance

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

- Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid expenditures and inventory.
 - Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.
 - Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by City Council.
-

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Such commitment is made via a resolution by City Council and must be made prior to the end of the year. Removal of this commitment requires a resolution by City Council.

- Assigned – This category represents intentions of an individual or group designated by City Council to use the funds for specific purposes. Through a resolution of City Council, the designee would have to be delegated the responsibility to assign funds. Through the approval of the City's Administrative Order, Council has provided that the Finance Director serves as the designee for assignments.
- Unassigned – This category represents all other funds not otherwise defined.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Further, when the components of unrestricted fund balance can be used for the same purpose, assigned fund balance is applied first. Unassigned fund balance is applied last.

Net Position

Net position is classified into three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt, net of unspent bond proceeds, that are attributable to the acquisition, construction and improvement of those assets. Restricted net position is restricted by laws or regulations of outside parties. Unrestricted consists of all other net position not included in the above categories.

Compensated Absences

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

For the Parking Authority, vacation pay for both salaried and union employees is based on length of service and accrues as of each employee's anniversary date. Sick pay for both salaried and union employees is based on eight days per calendar year for the year ended December 31, 2013. Employees may carry over a maximum of four sick days per calendar

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

year. Compensated absences are included as a part of accounts payable and other current liabilities in the statement of net position.

Unavailable/Unearned Revenues

Unavailable/unearned revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. In governmental funds, unavailable revenues represent amounts that are measurable, but are not available. Unearned revenues may 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/Premiums

Bond discounts/premiums are amortized over the term of the bonds using the bond outstanding method, which approximates the interest method. Bond discounts/premiums are included in the balance of bonds outstanding.

Deferred Charge on Refunding

Deferred change on refunding are amortized over the term of the new or refunded bonds, whichever is shorter, using the bond outstanding method, which approximates the interest method.

Conduit Debt and Related Receivable

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

The loan is secured by a second lien mortgage on the property and the corporate and personal guarantees of the developer and the assignment of leases and rents. In November 2012, the note was converted from a variable interest rate to a fixed interest rate as a result of a public offering of the note by HUD.

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

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

The balance on this loan at December 31, 2013 is \$2.902 million.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Property Taxes

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

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

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

The 2013 tax levy was 18.46 mills.

Interfund Transactions

As a result of its operations, the City affects a variety of transactions between funds to finance operations. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2013, 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, 2013, 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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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 \$785,314 is included in the accompanying financial statements. Claim payments based on actual claims ultimately filed could differ materially from these estimates. Settled claims from these risks have not exceeded commercial insurance coverage for the past four years.

Budgets

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

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Special Item

A special item is a transaction or other event, within the control of management, which is either unusual in nature or infrequent in occurrence.

Adoption of Governmental Accounting Standards Board (GASB) Statement

The City has adopted GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities.*" This Statement reclassifies certain items that were reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. As a result of this Statement, reclassifications have been made. Under GASB Statement No. 65, debt issuance costs, excluding debt insurance, are fully expensed in the year of issuance.

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.

In June 2012, GASB issued Statements No. 67 and 68, "*Financial Reporting for Pension Plans,*" and "*Accounting and Financial Reporting for Pensions.*" In addition, in November 2013, the GASB issued Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date.*" The objective of these Statements is to revise and establish reporting requirements for most governments that provide their employees with pension benefits. The provisions of these Statements are effective for the City's December 31, 2014 and 2015 financial statements.

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

2. UTILITY SYSTEM CONCESSION LEASE

On May 1, 2013, the City entered into an Agreement with the Lehigh County Authority. The terms of the Agreement provide that the Lehigh County Authority pay the City \$220,000,000 and the City lease the system to the Lehigh County Authority to operate and provide utility services. In addition, beginning January 1, 2016, the Lehigh County Authority shall pay the City an annual installment of \$500,000 over the lease term. The lease term began on August 7, 2013 for a term of 50 years. The proceeds of the lease were used to extinguish or defease

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

the debt of the Water and Sewer Funds and, as further discussed in Note 8, provide resources to loan funds to the City's pension plans.

The proceeds and annual installments due under the Agreement are reported as a deferred inflow of resources, net of the effect of the disposable equipment (those capital assets transferred, but not expected to be returned at the termination of the lease).

The deferred inflow of resources resulting from the Agreement, in the amount of \$218,616,016 on the Governmental Activities Statement of Net Position, will be amortized over the lease term as follows:

<u>Year Ending</u>	<u>Total</u>
2014	\$ 3,906,320
2015	3,906,320
2016	4,406,320
2017	4,406,320
2018	4,406,320
Thereafter	<u>195,956,783</u>
Total	<u>\$ 216,988,383</u>

For the year ended December 31, 2013, the City recognized \$1,627,633 in charges for services – water and sewer.

3. DEPOSITS AND INVESTMENTS

The carrying amounts of cash and investments at December 31, 2013 consist of the following:

Petty cash	\$ 6,600
Deposits	59,403,214
Investments	<u>278,057,881</u>
	<u>\$ 337,467,695</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Reconciliation to Statement of Net Position

Cash and cash equivalents:	
Governmental activities	\$ 54,339,362
Business-type activities	4,191,845
Fiduciary funds	878,607
	<hr/>
	59,409,814
Investments:	
Governmental activities	6,008,729
Fiduciary funds	272,049,152
	<hr/>
	278,057,881
	<hr/>
	\$ 337,467,695

Cash and Cash Equivalents

The City's available cash is invested in demand deposit accounts.

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

At December 31, 2013, the City's book balance was \$59,409,814 and the bank balance was \$59,400,890. Of the bank balance, \$500,000 was covered by federal depository insurance, \$87,203 was covered by National Credit Union Administration deposit insurance, and \$58,813,687 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Investments

As of December 31, 2013, the City's investments were comprised of the following:

Money market funds	\$ 159,608,654
Equity mutual funds	87,793,854
Bond mutual funds	30,655,373
Total	\$ 278,057,881

As of December 31, 2013, the City had the following investments in fixed income securities:

Investment Type	Fair Value	Investment Maturities				Rating
		2014	2015 - 2019	2020 - 2024	2025+	
Bond mutual funds	\$ 33,567	\$ -	\$ -	\$ -	\$ 33,567	A
Bond mutual funds	21,242	-	-	21,242	-	Aa
Bond mutual funds	30,443,451	-	27,454	30,410,671	5,326	Aaa
Bond mutual funds	11,610	-	-	11,610	-	BBB
Bond mutual funds	26,321	-	9,286	17,035	-	B
Bond mutual funds	12,177	-	-	-	12,177	Baa
Bond mutual funds	52,734	24,316	-	28,418	-	A1
Bond mutual funds	35,013	-	35,013	-	-	A2
Bond mutual funds	19,258	-	19,258	-	-	Aa3
Money market funds	153,598,482	153,598,482	-	-	-	Aaa
Money market funds	6,008,729	6,008,729	-	-	-	A-1+
Money market funds	1,443	1,443	-	-	-	Unrated
Total fixed income securities	\$ 190,264,027	\$ 159,632,970	\$ 91,011	\$ 30,488,976	\$ 51,070	

Interest Rate Risk

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

Credit Risk

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

The City's pension plans have a formal investment policy that seeks to minimize the risk of investment losses by requiring diversification of the investment portfolio targeted at 52% domestic equities, 18% international equities, and 30% fixed income for the Police and Firemens pension plans and 51% domestic equities, 17% international equities, and 32% fixed income for the Officers and Employees pension plan.

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. The City's investments are not exposed to custodial credit risk, because the investments are not evidenced by securities in book entry or paper form. The City does not have a formal policy limiting the amount of investments that can be held by counterparties.

Component Units' Custodial Credit Risk - Deposits

Authority

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

The Authority's available cash is invested in demand deposit accounts. At December 31, 2013, the carrying amount of the Authority's bank deposits was \$259,762. The corresponding bank balance at December 31, 2013 was \$263,784, of which \$263,784 is covered by federal deposit insurance.

Parking Authority

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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, 2013, \$200,988 of the Parking Authority's bank balance of \$2,107,235 was exposed to custodial credit risk.

Deposits are included in the statement of net position as cash and cash equivalents and certificates of deposit. Amounts invested in external investment pools are not categorized because securities are not used as evidence of the investment.

External investment pools:

Pennsylvania Treasury Department INVEST Program (INVEST)

The Parking Authority has an agreement with Pennsylvania Treasury Department to pool funds to enhance interest earnings. The INVEST program allows Pennsylvania municipalities to utilize the investment expertise of Treasury personnel to purchase investments with other local governmental units. Because of the large volume of money invested, the longer average investment maturity and low administrative charges; the State is able to provide a high rate of return. Funds deposited in the INVEST program require either one or ten day's notice for withdrawal. The INVEST pool is not SEC regulated. The investment policy of INVEST is guided by Pennsylvania statute for respective shareholder participants. The policy is consistent with investment criteria for a "AAA" rating from the Standard & Poor's and Fitch rating agencies. An oversight committee comprised of the State Treasurer, the State Secretary of the Budget, and the State House of Representatives Majority and Minority Chairmen, together with three independent third party investment experts, provide investment advice and strategies to be utilized by the INVEST program. The fair value of the Authority's position in the INVEST pool is the same as the value of the pool shares and matures in less than one year. The Authority's investment in INVEST has been rated AAAM, the highest rating available, by Standard & Poor's, an independent investment rating company. The average maturity of INVEST Daily Pool is 52 days at December 31, 2013.

Pennsylvania School District Liquid Asset Fund (PSDLAF)

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

The fund is managed by a Board of Trustees, which oversees, reviews, and supervises the activities of all consultants and professional advisers to PSDLAF. The Trustees also retain an Executive Director of the Fund who acts as a consultant to PSDLAF and performs such consulting and advisory services with respect to matters concerning the operations and activities of PSDLAF as may from time to time be reasonably requested by the Trustees. An independent investment company has been appointed by the Trustees to act as PSDLAF's investment adviser. The fair value of the Parking Authority's position in PSDLAF is the same as the value of the pool shares and matures in less than one year. The Parking Authority's investment in PSDLAF has been rated AAAM, the highest rating available, by Standard & Poor's, an independent investment rating company. The average maturity of PSDLAF is 48 days.

As of December 31, 2013, the carrying amounts of external investment pool assets were \$30,807. The fair value of external investment pool assets approximate their carrying values as of December 31, 2013. As required by GASB, investments in external investment pools are uncategorized with regard to risk and are not included in the custodial credit risk presented above.

4. LOANS RECEIVABLE

Authority

Loans receivable as of December 31, 2013 consist of the following:

The Authority has a loan receivable of \$500,000 at 2% with a private developer for the Farr Loft Project. Repayment of the loan was to commence in May 2009 with monthly principal and interest payments through April 2022. In July 2009, the loan agreement was amended, whereby payments of interest only at a rate of 2% would be made for a period of two years. No modifications to the loan agreement and payment schedule were made after the amendment expired in August 2011. Payments of interest only under the terms of the July 2009 agreement have continued. The Authority holds a third lien mortgage position on the property, furnishings, fixtures, and equipment related to the property and has established an allowance for 100% of the loan. An allowance for losses of \$500,000 was recorded against the loan at December 31, 2013.

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

5. CAPITAL ASSETS

Activity in the City's capital assets for the year ended December 31, 2013 is as follows:

	January 1, 2013	Additions	Disposals	Transfers in/ (Transfers out)	December 31, 2013
Government activities:					
Capital assets not being depreciated:					
Land	\$ 8,409,945	\$ -	\$ -	\$ -	\$ 8,409,945
Art	95,166	-	-	-	95,166
Assets under concession lease	-	-	-	68,103,396	68,103,396
Construction in progress	20,077,585	27,280,120	-	(1,943,431)	45,414,274
Total capital assets not being depreciated	28,582,696	27,280,120	-	66,159,965	122,022,781
Capital assets being depreciated:					
Buildings	24,063,227	-	-	-	24,063,227
Land and building improvements	27,127,195	45,850	-	2,128,796	29,301,841
Machinery and equipment	29,270,349	489,379	(315,613)	225,625	29,669,740
Vehicles	16,238,604	570,999	(244,969)	-	16,564,634
Infrastructure	66,195,554	-	-	-	66,195,554
Total capital assets being depreciated	162,894,929	1,106,228	(560,582)	2,354,421	165,794,996
Less accumulated depreciation for:					
Buildings	17,923,089	474,463	-	-	18,397,552
Land and building improvements	13,887,256	1,356,138	-	-	15,243,394
Machinery and equipment	16,194,022	1,494,646	(163,636)	-	17,525,032
Vehicles	12,716,353	898,911	(244,969)	-	13,370,295
Infrastructure	30,466,813	742,202	-	-	31,209,015
Total accumulated depreciation	91,187,533	4,966,360	(408,605)	-	95,745,288
Total capital assets being depreciated, net	71,707,396	(3,860,132)	(151,977)	2,354,421	70,049,708
Governmental activities capital assets, net	<u>\$ 100,290,092</u>	<u>\$ 23,419,988</u>	<u>\$ (151,977)</u>	<u>\$ 68,514,386</u>	<u>\$ 192,072,489</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

During the year ended December 31, 2013, certain assets associated with the Agreement were transferred from the Water and Sewer funds to Governmental Activities. As required under GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," capital assets retained as part of a concession lease agreement should not be depreciated if the arrangement requires the operator to return the facility to the transferor in its original or enhanced condition. As such, no depreciation will be taken on these assets during the term of the Agreement.

	January 1, 2013	Additions	Disposals	Transfer in/ (Transfer out)	December 31, 2013
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 3,759,049	\$ -	\$ -	\$ (2,624,290)	\$ 1,134,759
Construction in progress	-	4,842,704	(4,431,714)	(410,990)	-
Total capital assets not being depreciated	3,759,049	4,842,704	(4,431,714)	(3,035,280)	1,134,759
Capital assets being depreciated:					
Buildings	41,869,203	-	-	(40,624,662)	1,244,541
Land and building improvements	26,181,906	45,500	-	(21,477,096)	4,750,310
Machinery and equipment	42,151,971	533,277	(39,095,650)	-	3,589,598
Vehicles	8,808,975	187,251	(4,707,923)	(320,205)	3,968,098
Distribution and collection systems	54,459,191	-	-	(54,421,726)	37,465
Total capital assets being depreciated	173,471,246	766,028	(43,803,573)	(116,843,689)	13,590,012
Less accumulated depreciation for:					
Buildings	26,680,741	604,054	-	(26,795,127)	489,668
Land and building improvements	10,939,680	502,112	-	(8,462,279)	2,979,513
Machinery and equipment	29,821,326	1,751,773	(29,241,563)	-	2,331,536
Vehicles	6,456,621	396,469	(3,852,090)	(48,031)	2,952,969
Distribution and collection systems	15,722,696	344,208	-	(16,059,146)	7,758
Total accumulated depreciation	89,621,064	3,598,616	(33,093,653)	(51,364,583)	8,761,444
Total capital assets being depreciated, net	83,850,182	(2,832,588)	(10,709,920)	(65,479,106)	4,828,568
Business-type activities capital assets, net	\$ 87,609,231	\$ 2,010,116	\$ (15,141,634)	\$ (68,514,386)	\$ 5,963,327

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Depreciation expense was charged to governmental activities as follows:

General government	\$ 593,548
Public safety	1,345,705
Community development	635,787
Public works	2,238,835
Parks and recreation	152,485
Total	<u>\$ 4,966,360</u>

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

Water Fund	\$ 1,526,923
Sewer Fund	1,336,694
Municipal Golf Course	552,542
Solid Waste Fund	182,457
Total	<u>\$ 3,598,616</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Component Units' Capital Assets

Parking Authority

Activity in the Parking Authority's capital assets for the year ended December 31, 2013 is as follows:

	January 1, 2013	Additions	Disposals	December 31, 2013
Parking Authority:				
Capital assets not being depreciated:				
Land	\$ 8,495,248	\$ -	\$ -	\$ 8,495,248
Construction in progress	11,354	27,084	-	38,438
Total capital assets not being depreciated	8,506,602	27,084	-	8,533,686
Capital assets being depreciated:				
Land and building improvements	44,423,531	-	-	44,423,531
Vehicles	1,553,886	-	-	1,553,886
Equipment under capital lease	353,792	330,000	-	683,792
Total capital assets being depreciated	46,331,209	330,000	-	46,661,209
Less accumulated depreciation for:				
Land and building improvements	12,237,963	1,272,370	-	13,510,333
Vehicles	1,451,974	36,933	-	1,488,907
Equipment under capital lease	5,897	68,379	-	74,276
Total accumulated depreciation	13,695,834	1,377,682	-	15,073,516
Total capital assets being depreciated, net	32,635,375	(1,047,682)	-	31,587,693
Parking Authority capital assets, net	\$ 41,141,977	\$ (1,020,598)	\$ -	\$ 40,121,379

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

6. INTERFUND RECEIVABLE AND PAYABLE BALANCES

The composition of interfund balances as of December 31, 2013 is as follows:

Receivable Fund	Payable Fund	Purpose for Balance	Amount
General	Trexler	Short-term loan/negative cash	\$ 499,313
	Police Pension	DROP plan payment	25,157
	E-911	Short-term loan/negative cash	603,462
	Revolving	Payback funds to Commonwealth	1,320
	Golf	Cash advance for A/P	55,580
	Capital	Bond proceeds - Sewer	5,012,539
	CDBG	Cash advance for A/P	360,916
			<u>6,558,287</u>
Capital Projects	General	Bond proceeds - Water	1,128,266
	E-911	Capital project expenditures	678,574
			<u>1,806,840</u>
Solid Waste	Capital Projects	Short-term loan/negative cash	3,001,161
Trexler	Capital Projects	Cash advance for A/P	113,342
E-911	General	Reimbursement of expenditures	145,226
Pension - Police	General	Payroll withholdings	26,717
Pension - Fire	General	Payroll withholdings	14,858
Pension - O&E	General	Payroll withholdings	134
			<u>\$ 11,666,565</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

7. INDIVIDUAL FUND INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2013 consisted of the following:

	Transfers in:						Total
	General Fund	Capital Projects	E-911 Fund	Debt Service Fund	Water Fund	Sewer Fund	
Transfers out:							
General	\$ -	\$ 3,500,000	\$ 1,080,583	\$ 7,601,904	\$ -	\$ -	\$ 12,182,487
Capital					2,000,000	-	2,000,000
Trexler	21,879	225,927	-	-	-	-	247,806
E-911	6,781	-	-	-	-	-	6,781
Water	121,526,850	-	-	-	-	-	121,526,850
Sewer	79,652,002	-	-	-	-	-	79,652,002
Solid Waste	661,354	-	-	-	-	-	661,354
Golf	217,330	-	-	106,480	-	-	323,810
Risk	58,710	-	-	-	-	-	58,710
Governmental activities	(880,717)	-	-	-	68,876,792	59,612,986	127,609,061
	<u>\$ 201,264,189</u>	<u>\$ 3,725,927</u>	<u>\$ 1,080,583</u>	<u>\$ 7,708,384</u>	<u>\$ 70,876,792</u>	<u>\$ 59,612,986</u>	<u>\$ 344,268,861</u>

Transfers totaling \$3,787,388 were made to the General Fund for reimbursement of services rendered by the General Fund for other operating funds. Transfers of \$117,959,026 and \$70,618,306 were made from the Water Fund and Sewer Fund, respectively, to the General Fund from the proceeds of the Agreement. Transfers were made from the Water and Sewer Funds for \$1,975,525 and \$7,550,610, respectively, to the General Fund for the effects of closing the Water and Sewer Funds, net of the basis of accounting adjustment of \$880,717 to report receivables and revenue based on the availability criteria required under the modified accrual basis of accounting. Transfers were made to the General Fund from the Water and Sewer Funds for Homeland Security.

A transfer totaling \$3,500,000 was made from the General Fund to Capital Projects for future capital projects. 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.

A transfer of \$2,000,000 was made from the Capital Projects Fund to the Water Fund for capital asset purchases.

Net transfers of \$68,876,792 and \$59,612,986, were made to Governmental Activities for the effects of closing the Water and Sewer Funds, respectively. These amounts represent long-term assets and liabilities that are properly reflected in Governmental Activities, rather than governmental fund financial statements.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	Officers and Employees Pension Fund	Police Pension Fund	Firemen Pension Fund	Total Pension Trust Fund
Statement of Plan Net Position				
Assets:				
Interest receivable	\$ 13	\$ 231	\$ 166	\$ 410
Due from City's General Fund	134	26,717	14,858	41,709
Other receivables	-	-	22,291	22,291
Investments, at fair value	18,269,639	149,095,469	104,684,044	272,049,152
Total assets	18,269,786	149,122,417	104,721,359	272,113,562
Liabilities:				
Accounts payable	23,591	287,708	28,144	339,443
Due to City's General Fund	-	25,157	-	25,157
Total liabilities	23,591	312,865	28,144	364,600
Net Position:				
Restricted for pension benefits	<u>\$ 18,246,195</u>	<u>\$ 148,809,552</u>	<u>\$ 104,693,215</u>	<u>\$ 271,748,962</u>
Statement of Changes in Plan Net Position				
Additions:				
Contributions:				
Employer	\$ 4,381,097	\$ 86,776,774	\$ 62,708,409	\$ 153,866,280
Plan members	8,595	741,518	411,704	1,161,817
Total contributions	4,389,692	87,518,292	63,120,113	155,028,097
Investment income:				
Net appreciation in fair value of investments	2,226,745	10,223,208	6,904,056	19,354,009
Interest and dividends	287,774	1,348,058	860,357	2,496,189
Less investment expenses	(52,604)	(70,749)	(61,981)	(185,334)
Net investment income	2,461,915	11,500,517	7,702,432	21,664,864
Other income, miscellaneous	26,735	12,672	15,685	55,092
Total additions	6,878,342	99,031,481	70,838,230	176,748,053
Deductions:				
Benefits paid to recipients	2,427,801	14,253,689	8,121,530	24,803,020
Administrative and other fees	7,157	7,158	7,158	21,473
Total deductions	2,434,958	14,260,847	8,128,688	24,824,493
Increase in net position	4,443,384	84,770,634	62,709,542	151,923,560
Net position restricted for pension benefits:				
Beginning of year	13,802,811	64,038,918	41,983,673	119,825,402
End of year	<u>\$ 18,246,195</u>	<u>\$ 148,809,552</u>	<u>\$ 104,693,215</u>	<u>\$ 271,748,962</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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, 2013 and at December 31, 2013 for the PMRS Plan. Benefit provisions and their amendments are authorized by the separate Pension Boards for the Police, Firemen, and Officers and Employees Plans and by the Pennsylvania State Act 15 for the PMRS Plan.

	Officers and Employees	Police	Firemen	PMRS
Covered Employees	Closed 6/8/1976	All full-time members of the Police Force	All full-time members of the Fire Department	All full-time employees not previously covered
Number of active plan members	4	194	121	410
Number of retirees and beneficiaries receiving benefits	173	283	221	373
Terminated employees entitled to deferred benefits	-	-	-	15

Contributions

Pennsylvania Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act of the Commonwealth of Pennsylvania (as amended) (Act 205) requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the Plans' annual actuarial valuation. The most recent valuation for all of the City's Plans was completed as of January 1, 2013. The MMO includes the normal cost, estimated

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

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

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

	Officers and Employees	Police	Firemen
Annual required contribution (MMO)	\$ 81,097	\$ 2,276,774	\$ 1,508,323
Interest on net pension asset	(8,897)	(131,752)	(75,002)
Adjustment to annual required contribution	10,488	155,315	88,415
Annual pension cost	82,688	2,300,337	1,521,736
Contributions made	4,381,097	86,776,774	62,708,409
Increase in net pension asset	(4,298,409)	(84,476,437)	(61,186,673)
Net pension asset, beginning of year	(111,213)	(1,646,897)	(937,519)
Net pension asset, end of year	<u>\$ (4,409,622)</u>	<u>\$ (86,123,334)</u>	<u>\$ (62,124,192)</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	Three-Year Trend Information			
	Fiscal Year	Annual Pension Cost (APC)	Percentage	Net
			of APC Contributed	Pension Asset
Officers and Employees	12/31/11	\$ 514,434	103.4%	\$ 47,125
	12/31/12	513,343	112.5%	111,213
	12/31/13	82,688	98.1%	4,409,622
Police	12/31/11	7,345,591	103.4%	732,790
	12/31/12	7,334,618	112.5%	1,646,897
	12/31/13	2,300,337	99.0%	86,123,334
Firemen	12/31/11	4,151,067	103.4%	429,966
	12/31/12	4,075,923	112.5%	937,519
	12/31/13	1,521,736	99.1%	62,124,192
Pennsylvania Municipal Retirement Plan	12/31/11	1,367,093	100.0%	-
	12/31/12	1,299,757	100.0%	-
	12/31/13	1,612,483	100.0%	-

The annual required contribution for each of the Plans for the current year was determined as part of the January 1, 2013 actuarial valuation for the Officers and Employees, Police and Firemen plans and as part of the January 1, 2011 actuarial valuation for the State (PMRS) plan 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 PMRS Plan, and (b) projected salary increases of 4.5% and 3.5% per year with and without merit increases, respectively, for the Police Plan, 4.5% per year for the Officers and Employees and Firemen Plans, and an age-related scale for merit/seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%; with 2.0% added for each of the first 3 years of service) for PMRS, and (c) an inflation assumption included in the assumptions for (a) and (b) above for Police, Fire, and Officers and Employees, and a 3.0% inflation rate for the PMRS Plan, which is reflected in assumption (b). The actuarial value of assets was based on market value plus end of year accrual adjustments, if any.

The annual required contribution for the Officers and Employees, Police and Firemen plans reflects a reduction allowed under Section 404(h) of Act 205 for the deposit of note proceeds to the plan to be used to reduce the unfunded actuarial accrued liability. City Council approved the issuance of a note and subsequent forgiveness of the note to the pension plans.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

The note proceeds of \$4,300,000, \$84,500,000 and \$61,200,000 to the Officers and Employees, Police, and Firemen Plans, respectively, are reflected as employer contributions.

Investments That Represent Five Percent or More of Plan Net Position

At December 31, 2013, none of the Plans had investments in any one organization which represented five percent or more of the plan net position.

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 10.4 years for the Officers and Employees Plan, 13.4 years for the Police Plan, 15.9 years for the Firemen Plan, and 19.88 years for the PMRS plan.

Funded Status and Funding Progress

The funded status of the City's pension funds as of January 1, 2013, the most recent actuarial valuation date for the Plans, 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	\$ 13,356,905	\$ 18,422,512	\$ 5,065,607	72.50%	\$ 250,856	2019.33%
Police Pension Fund Plan	\$ 62,906,225	\$ 153,683,203	\$ 90,776,978	40.93%	\$ 14,487,385	626.59%
Firemen Pension Fund Plan	\$ 41,080,022	\$ 106,673,257	\$ 65,593,235	38.51%	\$ 9,755,213	672.39%
Pennsylvania Municipal Retirement System Plan	\$ 139,465,022	\$ 149,064,886	\$ 9,599,864	93.56%	\$ 27,286,203	35.18%

Because the note proceeds were not deposited into the Plans as of January 1, 2013, the actuarial value of assets noted above does not include such proceeds.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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.

Discretely Presented Component Units' Pension Plan

Authority

The Authority has a defined contribution pension plan as established under Code Section 403(b) for all employees. The Authority matches 100% of employee contributions up to the first 7% of employee deferral contributions. The Authority's pension expense for the year ended December 31, 2013 was zero.

Parking Authority

Allentown Parking Authority Union Employees' Defined Contribution Retirement Plan

The Allentown Parking Authority Union Employees' Defined Contribution Retirement Plan is designed to provide retirement benefit to the Parking Authority's eligible union employees. The plan covers all eligible employees over the age of 19 with one year of service with the Parking Authority. Employer contributions to the plan are established by the Union's collective bargaining agreement. Employer contributions were fixed at 5% by the collective bargaining agreement for the year ended December 31, 2013. Participant contributions are on a voluntary basis up to 10% of compensation. The plan's provisions may be amended by resolution of the Parking Authority's Board of Directors, subject to 90 days' written notice to the plan's Trustee. No modification that affects the rights, duties, and responsibilities of the Trustee may be made without the Trustee's consent.

Allentown Parking Authority Salaried Employees' Defined Contribution Retirement Plan

The Parking Authority's Salaried Employees' Defined Contribution Retirement Plan provides retirement benefits to the Authority's eligible salaried employees. This plan covers all salaried employees effective from their date of hire or plan effective date. The Authority contributes on behalf of each salaried employee an amount of 2.0% match for every 1.0% employee contribution. The employer's matching contribution is limited to 10% of earnings and may change from year-to-year. Salaried employees are 100% vested in the plan at time of enrollment. All salaried employee participants contribute a minimum of 5.0% of salary and received the maximum employer match of 10.0%.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Allentown Parking Authority Salaried Employees Defined Benefit Pension Plan

The Parking Authority has established the Salaried Employees Defined Benefit Pension Plan (DB Plan), a single employer plan, to provide normal retirement, postponed, disability, vested, and death benefits to plan members and beneficiaries of the Parking Authority's eligible salaried employees. The DB Plan and benefit accruals have been frozen as of December 31, 2010.

Funding Policy

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

Annual Pension Cost and Net Pension Asset

The annual required contribution was determined as part of an actuarial valuation dated January 1, 2013 using the entry age normal cost valuation method. The Parking Authority's annual pension cost and net pension asset to the plan for the plan year ended December 31, 2013 was as follows:

Annual required contribution	\$ -
Interest on net pension asset	(11,135)
Adjustment to annual required contribution	<u>18,878</u>
Annual pension cost	7,743
Contributions made	<u>-</u>
Decrease in net pension asset	7,743
Net pension asset, beginning of year	<u>(148,461)</u>
Net pension asset, end of year	<u>\$ (140,718)</u>

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

The actuarial assumptions of the Plan include the following:

- (a) Investment return - 7.5%
- (b) Post-retirement costs were estimated using the RP-2000 Mortality Table. (Changed from the 1983 Group Mortality Table during 2012)
- (c) No salary increase is assumed.
- (d) Retirement is assumed at normal retirement age of 55 or age on valuation date if greater.
- (e) Post-retirement benefits assume a life annuity with 120 monthly payments guaranteed.
- (f) An adjustment for inflation is included in the investment return.

Asset Valuation

Plan assets are valued using a five-year smoothing method described in the Internal Revenue Procedure 2000-40, Approval 16.

Trend Information

Trend information for the DB Plan is as follows:

Three-Year Trend Information			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
12/31/2011	\$ 111,119	92%	\$ 156,631
12/31/2012	8,170	0%	148,461
12/31/2013	7,743	0%	140,718

The Parking Authority's pension expense amounted to \$108,408 for the year ended December 31, 2013.

The funded status of the Parking Authority's pension plan is as follows:

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)
1/1/2013	\$ 2,936,804	\$ 2,924,774	\$ (12,030)	100.41%	N/A	N/A

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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, 2013 was as follows:

Notes and Bonds	Balance Outstanding January 1, 2013	Additions/ Transfers In	Reductions	Balance Outstanding December 31, 2013	Current Portion
2003 General Obligation Bond, 4.00% to 5.50% interest, partially refunded in 2012 with Series 2012 General Obligation Bonds, remaining balance serial portion payable in increasing annual installments of \$190,000 in 2015 to \$240,000 in 2019	\$ 1,070,000	\$ -	\$ -	\$ 1,070,000	\$ -
2004 Federally Taxable General Obligation Refunding Pension Bond, 3.18% to 5.25% interest, serial portion payable in increasing annual installments of \$870,000 in 2014 to \$2,260,000 in 2034	30,280,000	-	835,000	29,445,000	870,000
2004 Federally Taxable General Obligation Refunding Bond, 3.18% to 4.44% interest, payable in a final installment of \$695,000 in 2014	1,165,000	-	470,000	695,000	695,000
2004 Tax-Exempt General Obligation Bond, 4.00% to 5.00% interest, serial portion payable in increasing annual installments of \$320,000 in 2014 to \$490,000 in 2024	4,725,000	-	310,000	4,415,000	320,000
2006 Note, 3.85% interest, a final principal payment of \$286,000 in 2014	560,800	-	274,400	286,400	286,400

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Notes and Bonds	Balance Outstanding January 1, 2013	Additions/ Transfers In	Reductions	Balance Outstanding December 31, 2013	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 \$164,300 in 2014 to \$917,578 in 2031	9,219,618	-	155,000	9,064,618	164,300
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	20,690,181	1,381,773	-	22,071,954	-
2007 Taxable General Obligation Note, 5.62% to 5.87% payable in varying annual installments of \$40,000 in 2014 to \$45,000 in 2021	7,850,000	-	35,000	7,815,000	40,000
2008 Taxable General Obligation Bond, 3.00% to 3.7% payable in varying annual installments of \$540,000 in 2014 to \$315,000 in 2018	3,020,000	-	730,000	2,290,000	540,000
2009 Tax-Exempt General Obligation Bond, 4.13% interest, serial portion payable in increasing annual installments of \$308,000 in 2014 to \$465,000 in 2024	4,494,000	-	295,000	4,199,000	308,000
2011 Tax-Exempt General Obligation Bond, 2.00% to 5.50% payable in varying annual installments of \$95,000 in 2014 to \$540,000 in 2036	6,260,000	-	90,000	6,170,000	95,000

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Notes and Bonds	Balance Outstanding January 1, 2013	Additions/ Transfers In	Reductions	Balance Outstanding December 31, 2013	Current Portion
2011 Series A Tax-Exempt General Obligation Bond, 2.00% to 4.75% payable in varying annual installments of \$575,000 in 2014 to \$255,000 in 2036	6,785,000	-	555,000	6,230,000	575,000
2012 General Obligation Bond, 0.50% to 3.00% payable in varying annual installment of \$130,000 in 2014 to \$740,000 in 2022	5,710,000	-	125,000	5,585,000	130,000
Total	101,829,599	1,381,773	3,874,400	99,336,972	4,023,700
Transfer from Water Fund:					
2006 Water Note, 3.85% interest, a final principal payment of \$429,600 in 2014	-	429,600	-	429,600	429,600
Total Governmental Activities					
Notes and Bonds	101,829,599	1,811,373	3,874,400	99,766,572	4,453,300
Premium on bond issuance	530,646	-	34,650	495,996	-
Total	<u>\$ 102,360,245</u>	<u>\$ 1,811,373</u>	<u>\$ 3,909,050</u>	<u>\$ 100,262,568</u>	<u>\$ 4,453,300</u>

Long-term debt activity of the City's business-type activities for the year ended December 31, 2013 was as follows:

Notes and Bonds	Balance Outstanding January 1, 2013	Additions	Reductions	Balance Outstanding December 31, 2013	Current Portion
2003 Guaranteed Water Revenue Refunding Bonds, 3.55% to 4.375% interest, serial portion payable in varying annual installments	\$ 675,000	\$ -	\$ 675,000	\$ -	\$ -

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Notes and Bonds	Balance Outstanding January 1, 2013	Additions	Reductions	Balance Outstanding December 31, 2013	Current Portion
2003 Guaranteed Sewer Revenue Refunding Bonds, 3.55% to 4.40% interest, serial portion payable in annual installments	2,960,000	-	2,960,000	-	-
2004 Guaranteed Water Revenue Bonds, 3.00% to 4.40% interest, serial portion payable in varying annual installments	1,640,000	-	1,640,000	-	-
2004 Guaranteed Sewer Revenue Bonds, 3.00% to 4.00% interest, serial portion payable in increasing annual installments	185,000	-	185,000	-	-
2006 Water Note, 3.85% interest, varying principal annual payments	841,200	-	411,600	429,600	429,600
2008 Guaranteed Water Revenue Bonds, 3.00% to 3.70% interest, varying principal annual payments	1,315,000	-	1,315,000	-	-
2008 Guaranteed Sewer Revenue Bonds, 3.00% to 3.70% interest, varying principal annual payments	3,095,000	-	3,095,000	-	-
2011 Tax-Exempt General Obligation Bonds - Water, 2.00% to 5.00% interest, varying principal annual payments	1,205,000	-	1,205,000	-	-

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Notes and Bonds	Balance Outstanding January 1, 2013	Additions	Reductions	Balance Outstanding December 31, 2013	Current Portion
2011 Tax-Exempt General Obligation Bonds - Sewer, 2.00% to 5.00% interest, varying principal annual payments	4,040,000	-	4,040,000	-	-
2011 Series A Tax-Exempt General Obligation Bonds - Water, 2.00% to 3.38% interest, varying principal annual payments	3,985,000	-	3,985,000	-	-
2011 Series A Tax-Exempt General Obligation Bonds - Sewer, 2.00% to 3.38% interest, varying principal annual payments	1,035,000	-	1,035,000	-	-
2012 Penn Vest Loan, 1.00% fixed interest only during construction period, with principal and interest interest payments beginning at completion of construction and continuing for 20 years	199,476	334,035	533,511	-	-
2012 Penn Vest Loan, 1.00% fixed interest only during construction period, with principal and interest interest payments beginning at completion of construction and continuing for 20 years	1,940,647	2,689,512	4,630,159	-	-
Total	23,116,323	3,023,547	25,710,270	429,600	429,600
Transfer to Governmental Activities:					
2006 Water Note, 3.85% interest, final payment of \$429,600 in 2014	-	-	-	(429,600)	(429,600)
Total Business-type Activities Notes and Bonds	\$ 23,116,323	\$ 3,023,547	\$ 25,710,270	\$ -	\$ -

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Debt service requirements to maturity, including interest of \$84,400,497, are as follows:

<u>Year Ending</u>	<u>Governmental Activities</u>
2014	\$ 8,157,734
2015	8,151,399
2016	8,146,807
2017	8,135,415
2018	8,142,500
2019-2023	40,769,161
2024-2028	39,649,912
2029-2033	39,377,255
2034-2036	23,636,886
Total	<u>\$ 184,167,069</u>

Defeasance of Debt

During the year ended December 31, 2013, the City used a portion of the proceeds from the Agreement to defease or otherwise extinguish the Guaranteed Sewer and Water Revenue Refunding Bonds, Series of 2003, the Guaranteed Sewer and Water Revenue Bonds, Series of 2004, Guaranteed Sewer and Water Revenue Bonds, Series of 2008, General Obligation Bonds, Series of 2011 (Sewer and Water portion), General Obligation Bonds, the Series of 2011A (Sewer and Water portion), and two 2012 PennVest loans.

The City has invested monies in escrow with the Trustee sufficient to pay the outstanding defeased amounts of the bonds to maturity. At December 31, 2013, outstanding water and sewer revenue bonds of \$2,150,000 and \$2,450,000, respectively, and outstanding water and sewer general obligation bonds of \$4,030,000 and \$4,965,000, respectively, are considered defeased.

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, 2013, \$9,455,000 of general obligation bonds, \$630,000 of water revenue bonds, and \$2,205,000 of sewer revenue bonds outstanding are considered defeased.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

	Balance January 1, 2013	Additions/ Transfers in	Reductions/ Transfers out	Balance December 31, 2013	Current Portion
Compensated absences:					
Governmental activities	\$ 3,155,784	\$ 3,835,994	\$ 3,447,813	\$ 3,543,965	\$ 3,185,336
Business-type activities	895,489	137,000	873,476	159,013	141,316
Total accrued compensated absences	<u>\$ 4,051,273</u>	<u>\$ 3,972,994</u>	<u>\$ 4,321,289</u>	<u>\$ 3,702,978</u>	<u>\$ 3,326,652</u>
Capital leases:					
Governmental activities	\$ 654,732	\$ 340,688	\$ 142,350	\$ 853,070	\$ 181,475
Business-type activities	644,817	171,504	404,717	411,604	123,480
Total capital leases	<u>\$ 1,299,549</u>	<u>\$ 512,192</u>	<u>\$ 547,067</u>	<u>\$ 1,264,674</u>	<u>\$ 304,955</u>

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

The capital assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Machinery, equipment, and vehicles	\$ 1,744,362	\$ 721,004
Less accumulated depreciation	<u>639,041</u>	<u>335,298</u>
	<u>\$ 1,105,321</u>	<u>\$ 385,706</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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>
2014	\$ 213,686	\$ 131,242	\$ 344,928
2015	213,686	131,242	344,928
2016	213,686	131,242	344,928
2017	213,686	34,544	248,230
2018	43,813	-	43,813
Thereafter	43,813	-	43,813
	<u>942,370</u>	<u>428,270</u>	<u>1,370,640</u>
Less interest	<u>89,300</u>	<u>16,666</u>	<u>105,966</u>
Total	<u>\$ 853,070</u>	<u>\$ 411,604</u>	<u>\$ 1,264,674</u>

Discretely Presented Component Units' Long-Term Debt

Authority

At December 31, 2013, notes payable consist of the following:

	<u>Balance January 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2013</u>	<u>Current Portion</u>
A non-interest bearing deferred payment loan with the City of Allentown for the rehabilitation of a property, due upon the sale or transfer of an interest in or the entire property.	\$ 75,000	\$ -	\$ -	\$ 75,000	\$ 75,000

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Parking Authority

Long-term debt activity of the Parking Authority for the year ended December 31, 2013 consisted of the following:

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013	Current Portion
2003 Guaranteed Parking Revenue Bonds, 3.70% to 3.90% interest, serial portion payable in increasing annual installments of \$330,000 in 2014 to \$355,000 in 2016	\$ 1,350,000	\$ -	\$ 320,000	\$ 1,030,000	\$ 330,000
2004 Guaranteed Parking Revenue Refunding Bonds, 3.25% to 3.50% interest, serial portion payable in increasing annual installments. Final payment was made in September 2013	695,000	-	695,000	-	-
2005 Guaranteed Parking Revenue Bonds, 4.00% to 5.00% interest, serial portion payable in increasing annual installments of \$290,000 in 2014 to \$730,000 in 2035	10,575,000	-	275,000	10,300,000	290,000
2007 Parking Revenue Bond, 4.20%, serial portion payable in increasing annual installments of \$100,000 in 2014 to \$275,000 in 2031	3,265,000	-	90,000	3,175,000	100,000
2011 Parking Revenue Bond, variable interest at 65% prime (2.11% at December 31, 2013), serial portion payable in annual installments of \$121,250 through 2019	848,750	-	121,250	727,500	121,250
	<u>16,733,750</u>	<u>-</u>	<u>1,501,250</u>	<u>15,232,500</u>	<u>\$ 841,250</u>
Capital lease	336,995	330,000	126,013	540,982	
	<u>17,070,745</u>	<u>330,000</u>	<u>1,627,263</u>	<u>15,773,482</u>	
Unearned revenue	9,495,650	-	229,008	9,266,642	
OPEB liability	50,495	35,668	-	86,163	
	<u>\$ 26,616,890</u>	<u>\$ 365,668</u>	<u>\$ 1,856,271</u>	<u>\$ 25,126,287</u>	

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, 2013, the rate of this line is 3.5%.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Short-term debt activity for the year ended December 31, 2013 is as follows:

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013
Line of credit	<u>\$ 340,853</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 340,853</u>

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

Debt service requirements to maturity, including interest of \$8,202,324, are as follows for the Parking Authority:

<u>Year Ending</u>	<u>Total</u>
2014	\$ 1,653,063
2015	1,657,436
2016	1,655,430
2017	1,267,525
2018	1,151,390
2019-2023	5,226,372
2024-2028	5,157,633
2029-2033	4,674,207
2034-2035	1,532,750
Total	<u>\$ 23,975,806</u>

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

10. FUND BALANCE CLASSIFICATIONS

The City presents its governmental fund balances by level of constraint in the aggregate on its balance sheet – governmental funds. The individual specific purposes of each constraint are presented below:

	General	Capital Projects	Other Governmental Funds	Total
Restricted for:				
Capital acquisitions	\$ -	\$ 897,778	\$ -	\$ 897,778
Public works	-	-	1,363,903	1,363,903
Community development	138,600	-	6,492,948	6,631,548
Public safety	-	-	730,332	730,332
Pension benefits	655,458	-	-	655,458
	794,058	897,778	8,587,183	10,279,019
Assigned for:				
General government	226,019	-	-	226,019
Public works	194,288	-	-	194,288
Community development	481,515	-	-	481,515
Public safety	626,495	-	-	626,495
Parks and recreation	59,805	-	-	59,805
Pension benefits	20,000,000	-	-	20,000,000
	21,588,122	-	-	21,588,122
Unassigned	24,022,470	-	(151,609)	23,870,861
Total fund balance	\$ 46,404,650	\$ 897,778	\$ 8,435,574	\$ 55,738,002

11. 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.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

	<u>2013</u>	<u>2012</u>
Accrued claims liability, January 1	\$ 812,104	\$ 870,742
Incurred claims, including estimated claims incurred by not reported as of December 31):		
Provision for current year events	1,451,900	1,657,875
Payments	<u>(1,478,690)</u>	<u>(1,716,513)</u>
Accrued claims liability, December 31	<u>\$ 785,314</u>	<u>\$ 812,104</u>
Current portion	<u>\$ 785,314</u>	<u>\$ 812,104</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, 2014.

Discretely Presented Component Units' Risk Management

Parking Authority

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

The Parking Authority is a member of the Pennsylvania Municipal Health Insurance Cooperative (PMHIC), a pool of municipalities to purchase health insurance coverage. The purpose of the cooperative is to control escalating health care premiums by allowing municipalities the potential for volume discounts and annual premium returns for favorable claims experience. Rates for each municipality are developed annually with a final reconciliation of total premiums to actual claims made approximately six months after each policy year-end. Allocation of any surplus is determined by a board of officers appointed by participants. Unfavorable experience is included in the following year rates. Maximum limits for any one claim are established to minimize cost exposure. A 10% reserve is built into the rates to cover the cooperative's operating costs and any unfavorable experience.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

12. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The City provides healthcare coverage for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. Eligible retirees may elect to enroll in the healthcare coverage provided to active employees. The plan provides health care, prescription drug, dental, and vision coverage for the retiree, spouse and dependents until Medicare eligibility (normally age 65). Retirees contribute between 25% and 50% of the monthly healthcare premiums established by the City.

Funding Policy and Annual OPEB Cost

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

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

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

Annual required contribution (ARC)	\$ 5,438,743
Interest on net OPEB obligation	336,520
Adjustment to ARC	(526,380)
Annual OPEB cost	5,248,883
Contributions made	* 3,948,753
Increase in net OPEB obligation	1,300,130
Net OPEB obligation, beginning of year	8,412,986
Net OPEB obligation, end of year	<u>\$ 9,713,116</u>

* - Contributions made includes a termination adjustment for Water and Sewer Fund employees no longer eligible for OPEB.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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>
12/31/2011	\$ 3,775,719	66%	\$ 6,772,083
12/31/2012	4,511,041	64%	8,412,986
12/31/2013	5,248,883	75%	9,713,116

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2013, the most recent actuarial valuation, was as follows:

<u>Actuarial Value of Assets</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
\$ -	\$ 74,006,955	0%	\$ 40,290,000	184%

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.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Significant methods and assumptions are as follows:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed period
Remaining amortization period	25 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 1.0% due to merit
Healthcare inflation rate	8% increase in 2013, followed by a 9% increase in 2014, an 8% increase in 2015, and a 6.5% increase in 2016, then decreasing by 0.5% each year to a 5% increase for 2019 and later

Discretely Presented Component Units' OPEB Plan

Parking Authority

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

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

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

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

Funding Status and Progress

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

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

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

Annual OPEB Cost and Net OPEB Obligation

The Parking Authority's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Parking Authority's annual OPEB cost for the year, the amount actually contributed to the OPEB Plan, and changes in the Parking Authority's net OPEB obligation to the OPEB Plan:

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Annual required contribution (ARC)	\$ 51,560
Interest on net OPEB obligation	2,777
Adjustment to ARC	<u>(3,764)</u>
Annual OPEB cost	50,573
Contributions made	<u>14,905</u>
Increase in net OPEB obligation	35,668
Net OPEB obligation, beginning of year	<u>50,495</u>
Net OPEB obligation, end of year	<u>\$ 86,163</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation for the year ending December 31, 2013 was as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2011	\$ 51,891	60%	\$ 30,913
12/31/2012	51,360	62%	50,495
12/31/2013	50,573	29%	86,163

Actuarial Methods and Assumptions

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

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

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

13. 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, 2013 is as follows:

<u>Year Ending</u>	<u>Total</u>
2014	\$ 169,920
2015	219,920
2016	219,920
2017	219,920
2018	219,920
Thereafter	9,189,362
Total	<u>\$ 10,238,962</u>

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

14. SPECIAL ITEMS

The City used proceeds from the Agreement to fund escrow accounts to defease or otherwise extinguish all of its outstanding debt on the Water and Sewer funds, as discussed in Note 9. In a defeasance, the trustee of the escrow account becomes the primary obligor on the refunded debt, meaning that the government is only contingently liable for the debt's

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

repayment. Since governments do not report contingent obligations as liabilities, the defeased debt, as well as the related escrow assets held in trust for its repayment, are removed from the financial statements. The loss on extinguishment of debt at December 31, 2013 was \$1,959,898.

Additionally, as a result of the Agreement, the amounts accrued for OPEB for Water and Sewer Fund employees are no longer an obligation of the City. Therefore, \$660,819 was reported as a gain on the cancellation of post-employment benefits.

15. COMMITMENTS AND CONTINGENCIES

Construction

The City, through the Capital Projects Fund, entered into contracts with construction contractors with a remaining commitment at December 31, 2013 of approximately \$28.7 million.

Other

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2013, 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

Parking Authority

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

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

16. RESTATEMENT

As discussed in Note 1, the City adopted GASB Statement No. 65 during the year ended December 31, 2013. As a result of adopting Statement No. 65, certain bond issuance costs have been eliminated from assets.

The following summarizes restatements made to beginning net position:

	Governmental Activities	Business-type Activities	Water Fund	Sewer Fund
Net position, originally stated	\$ 10,957,947	\$ 85,364,615	\$ 51,432,733	\$ 21,866,075
Implementation of GASB 65	(1,517,513)	(834,403)	(307,833)	(526,570)
Net position, restated	<u>\$ 9,440,434</u>	<u>\$ 84,530,212</u>	<u>\$ 51,124,900</u>	<u>\$ 21,339,505</u>

17. SUBSEQUENT EVENTS

In May 2014, the City entered into a settlement agreement with the Lehigh County Authority, Coplay-Whitehall Sewer Authority, Salisbury Township, South Whitehall Township, South Whitehall Township Authority, and Lower Macungie Township (signatories) related to disputed sewer deposits. Cumulatively, in the amount of \$3.93 million at December 31, 2013, these sewer deposits had been treated as unearned revenue. The terms of the agreement provide that the City will pay the signatories approximately \$2.13 million. Therefore, during the year ended December 31, 2013, the City recognized \$1.8 million in charges for service revenue in the General Fund as a result of the settlement.

Parking Authority

In March 2014, the Authority entered into a Letter of Intent to sell one of its parking lots. The sale price of the property will be \$1,400,000 and the proceeds will be received \$10,000 at the time of the execution of the Letter of Intent, \$490,000 due at closing and \$900,000 mortgage against the property. The mortgage will bear interest at 3% per annum and will be repaid over a three year period.

In May 2014, the Authority issued the Parking Revenue Bond, Series of 2014, in the principal amount of \$3,500,000. The 2014 Series Bond is intended to be issued as interim financing and has a maturity date of May 8, 2017. Bond interest will be payable monthly with a rate equal to the 30 day London Interbank Offering Rate (LIBOR) plus 1.70 basis points.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

In May 2014, the Authority also authorized the issuance of tax exempt and taxable parking revenue bonds in the maximum principal amount of \$50,000,000. The purpose of these bonds would be to fund new facilities and refund prior bonds.

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**REQUIRED
SUPPLEMENTARY
INFORMATION**

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE

BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes:				
Real estate:				
Current	\$28,600,000	\$28,600,000	\$28,288,282	\$ (311,718)
Prior year	1,210,000	1,210,000	1,259,979	49,979
Lehigh County Tax Claims	500	500	389	(111)
Total real estate taxes	<u>29,810,500</u>	<u>29,810,500</u>	<u>29,548,650</u>	<u>(261,850)</u>
Act 511 taxes:				
Earned income	16,863,891	16,863,891	18,430,906	1,567,015
Residence per capita	203,000	203,000	181,779	(21,221)
Amusement devices	17,500	17,500	16,533	(967)
Deed transfer	800,000	800,000	872,116	72,116
Local services tax	2,025,000	2,025,000	1,778,768	(246,232)
Business privilege	7,000,000	7,000,000	6,346,057	(653,943)
Total Act 511 taxes	<u>26,909,391</u>	<u>26,909,391</u>	<u>27,626,159</u>	<u>716,768</u>
Total taxes	<u>56,719,891</u>	<u>56,719,891</u>	<u>57,174,809</u>	<u>454,918</u>
Licenses and permits:				
Business licenses	415,000	415,000	454,766	39,766
Billboard and sign permits/licenses	8,522	8,522	9,825	1,303
Building permits and licenses	600,000	600,000	820,541	220,541
Plumbing permits and licenses	205,000	205,000	124,350	(80,650)
Electrical permits and licenses	200,000	200,000	309,837	109,837
Sheet metal technician license	60,000	60,000	61,090	1,090
Liquor licenses	60,000	60,000	54,400	(5,600)
Health bureau permits and licenses	172,000	172,000	192,865	20,865
Rental inspection program	1,878,900	1,878,900	1,957,279	78,379
Presales inspection program	120,000	120,000	138,200	18,200
Zoning permits and fees	83,000	83,000	88,463	5,463
Fire department inspection fees	82,000	82,000	74,795	(7,205)
CATV franchise fees	1,100,000	1,100,000	1,256,207	156,207
Shade tree permits/fees	3,000	3,000	3,270	270
Other permits and licenses	173,034	173,034	304,666	131,632
Total licenses and permits	<u>5,160,456</u>	<u>5,160,456</u>	<u>5,850,554</u>	<u>690,098</u>
Fines and forfeits:				
District court	310,000	310,000	338,370	28,370
Parking Authority reimbursement	175,000	175,000	217,150	42,150
Fines and restitution	180,000	180,000	116,585	(63,415)
Total fines and forfeits	<u>665,000</u>	<u>665,000</u>	<u>672,105</u>	<u>7,105</u>

(Continued)

See accompanying notes to required supplementary information.

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE

BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues (Continued):				
Intergovernmental revenue:				
Health grants Acts 315 and 12	846,900	846,900	594,323	(252,577)
Health categorical grants	1,096,110	1,116,045	1,092,406	(23,639)
Police/fire training	270,000	296,010	256,277	(39,733)
State aid for pension	3,859,859	3,859,859	3,938,500	78,641
Police grants/reimbursements	2,049,343	2,189,887	2,040,073	(149,814)
Forfeiture receipts	-	-	-	-
Casino fee	3,902,000	3,902,000	3,721,887	(180,113)
Other grants/miscellaneous	142,955	10,796,705	6,492,442	(4,304,263)
Total intergovernmental revenue	<u>12,167,167</u>	<u>23,007,406</u>	<u>18,135,908</u>	<u>(4,871,498)</u>
Charges for services:				
Departmental earnings:				
Tax/municipal certifications	100,000	100,000	118,905	18,905
Police extra duty jobs	475,000	508,206	607,791	99,585
Health bureau services	128,275	128,275	117,066	(11,209)
Street excavation/restoration	30,000	30,000	29,801	(199)
Printing and copier fees	75,000	75,000	80,031	5,031
Other charges for service	225,000	225,000	55,719	(169,281)
Vehicle towing agreement	210,000	210,000	210,000	-
EMS transit fees	3,200,000	3,200,000	3,092,817	(107,183)
Warrants of survey	12,000	12,000	3,552	(8,448)
Special events	-	-	34,671	34,671
ADIDA	-	-	5,871	5,871
Total departmental earnings	<u>4,455,275</u>	<u>4,488,481</u>	<u>4,356,224</u>	<u>(132,257)</u>
Municipal recreation:				
Swimming pool fees	155,000	155,000	164,880	9,880
Recreation fees	62,500	62,500	79,184	16,684
Total municipal recreation	<u>217,500</u>	<u>217,500</u>	<u>244,064</u>	<u>26,564</u>
General Fund service charges:				
Water service charges	2,236,163	1,492,299	1,492,299	-
Sewer service charges	1,990,192	1,329,035	1,329,035	-
Other service charges	979,877	979,877	966,055	(13,822)
Total General Fund service charges	<u>5,206,232</u>	<u>3,801,211</u>	<u>3,787,389</u>	<u>(13,822)</u>
Total charges for service	<u>9,879,007</u>	<u>8,507,192</u>	<u>8,387,677</u>	<u>(119,515)</u>
Investment income	1,700	1,700	66,858	65,158

(Continued)

See accompanying notes to required supplementary information.

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE

BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues (Continued):				
Other income:				
Rental of city property	71,880	71,880	110,979	39,099
Contributions	179,000	179,000	14,723	(164,277)
Damage to city property	30,000	30,000	16,663	(13,337)
Lights in parkway	175,000	175,000	169,174	(5,826)
Pennsylvania Utility Realty Tax	70,000	70,000	71,164	1,164
Allentown Housing Authority	45,000	45,000	94,948	49,948
Sale of city property	457,000	457,000	41,772	(415,228)
Recreation/special events	3,500	3,500	4,030	530
Miscellaneous	2,294,116	2,294,116	979,122	(1,314,994)
Total other income	<u>3,325,496</u>	<u>3,325,496</u>	<u>1,502,575</u>	<u>(1,822,921)</u>
Total revenues	<u>87,918,717</u>	<u>97,387,141</u>	<u>91,790,486</u>	<u>(5,596,655)</u>
Expenditures:				
General government:				
Nondepartmental:				
City Council	421,812	483,355	368,818	114,537
Office of the Mayor	370,278	370,278	367,074	3,204
City Controller	176,388	176,388	168,215	8,173
Law	629,402	629,403	616,689	12,714
General and civic	2,181,211	157,207,221	157,090,490	116,731
Total nondepartmental	<u>3,779,091</u>	<u>158,866,645</u>	<u>158,611,286</u>	<u>255,359</u>
Department of Finance	<u>3,232,645</u>	<u>13,363,573</u>	<u>9,426,063</u>	<u>3,937,510</u>
Total Department of Finance	<u>3,232,645</u>	<u>13,363,573</u>	<u>9,426,063</u>	<u>3,937,510</u>
Human Resources	<u>631,196</u>	<u>648,851</u>	<u>614,218</u>	<u>34,633</u>
Total Human Resources	<u>631,196</u>	<u>648,851</u>	<u>614,218</u>	<u>34,633</u>
Management Systems:				
Management Director and Information Services	1,770,694	2,083,295	1,941,200	142,095
Emergency Medical Services	-	12,006	12,006	-
Total Management Systems	<u>1,770,694</u>	<u>2,095,301</u>	<u>1,953,206</u>	<u>142,095</u>
Total general government	<u>9,413,626</u>	<u>174,974,370</u>	<u>170,604,773</u>	<u>4,369,597</u>

(Continued)

See accompanying notes to required supplementary information.

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2013
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures (Continued):				
Public safety:				
Department of Public Safety:				
Police	33,471,768	33,895,835	27,317,135	6,578,700
Fire	20,615,080	20,963,407	17,172,714	3,790,693
Communications	868,236	869,336	732,714	136,622
Total public safety	<u>54,955,084</u>	<u>55,728,578</u>	<u>45,222,563</u>	<u>10,506,015</u>
Public works:				
Department of Public Works:				
Director's office	56,313	207,296	233,113	(25,817)
Engineering	-	649,257	463,524	185,733
Building maintenance	1,901,389	1,938,015	1,676,025	261,990
Fleet maintenance operation	3,369,959	3,369,959	2,985,624	384,335
Streets	1,555,173	2,406,161	2,335,664	70,497
Traffic planning and control	693,902	729,616	686,688	42,928
Street lighting	651,147	653,662	618,241	35,421
Total public works	<u>8,227,883</u>	<u>9,953,966</u>	<u>8,998,879</u>	<u>955,087</u>
Health and sanitation:				
Department of Community Development:				
Health	2,908,744	2,945,085	2,814,027	131,058
Total health and sanitation	<u>2,908,744</u>	<u>2,945,085</u>	<u>2,814,027</u>	<u>131,058</u>
Parks and recreation:				
Department of Community Development:				
Park maintenance	391,274	1,522,313	1,264,132	258,181
Recreation	556,927	557,505	542,361	15,144
Swimming pool operation	389,882	391,101	354,052	37,049
Total parks and recreation	<u>1,338,083</u>	<u>2,470,919</u>	<u>2,160,545</u>	<u>310,374</u>
Community development:				
Department of Community Development:				
Director's office	868,179	997,303	912,773	84,530
Planning and zoning	910,751	1,527,548	1,022,230	505,318
Building standards and safety	2,487,302	2,499,108	2,437,613	61,495
Total community development and planning	<u>4,266,232</u>	<u>5,023,959</u>	<u>4,372,616</u>	<u>651,343</u>
Capital outlays	<u>1,106,814</u>	<u>1,335,872</u>	<u>1,033,202</u>	<u>302,670</u>
Total capital outlays	<u>1,106,814</u>	<u>1,335,872</u>	<u>1,033,202</u>	<u>302,670</u>
Total expenditures	<u>82,216,466</u>	<u>252,432,749</u>	<u>235,206,605</u>	<u>17,226,144</u>

(Continued)

See accompanying notes to required supplementary information.

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE

BUDGETARY BASIS - GENERAL FUND

YEAR ENDED DECEMBER 31, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Excess (Deficiency) of Revenues over Expenditures	5,702,251	(155,045,608)	(143,416,119)	11,629,489
Other Financing Sources (Uses):				
Transfers in:				
Equipment Fund	1,106,814	1,335,872	1,335,872	-
Water and Sewer Funds				
Homeland security	200,000	200,000	200,000	-
Concession lease	-	184,402,375	188,577,333	4,174,958
Closing of funds	-	-	8,645,418	8,645,418
Debt service	-	-	54,051	54,051
Transfers out:				
General Fund	(1,106,814)	(1,335,872)	(1,335,872)	-
Debt Service Fund	(5,241,925)	(5,241,925)	(5,212,973)	28,952
Capital Projects Fund	-	(3,500,000)	(3,500,000)	-
E-911 Fund	(600,000)	(625,000)	(1,080,583)	(455,583)
Total other financing sources (uses)	(5,641,925)	175,235,450	187,683,246	12,447,796
Net Change in Fund Balance	\$ 60,326	\$ 20,189,842	44,267,127	\$ 24,077,285
Net effect of agency fund, other income, and expenditure accruals			2,878,695	
Net Change in Fund Balance			47,145,822	
Fund Balance (Deficit):				
Beginning of year			(741,172)	
End of year			\$ 46,404,650	

(Concluded)

See accompanying notes to required supplementary information.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

The City amended the 2013 budget to include \$150 million for pension contributions and \$5 million in risk management payments as General and Civic expenditures. The amounts were appropriated through budget amendments as a result of the City entering into the Water and Sewer Utility System Concession and Lease Agreement. For financial reporting purposes in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds, these amounts are reported by function. However, for budgetary purposes, these amounts have been reported as General and Civic expenditures.

2. COMPLIANCE

Because the legal level of budgetary control is so detailed (account level) that it is not practical to demonstrate compliance within this document, the City has prepared a separate budgetary report to demonstrate compliance at the account level.

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2013

Excess of Expenditures Over Appropriations

	<u>Appropriation</u>	<u>Expenditures</u>	<u>Over Appropriation</u>
General Fund:			
Public Works - Director's office			
Administration - permanent wages	\$ 43,423	\$ 76,445	76.0%
Office of compliance - permanent wages	\$ 78,061	\$ 83,667	7.2%

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund and other financing sources.

CITY OF ALLENTOWN, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF FUNDING PROGRESS

Pennsylvania Municipal Retirement System Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2007	\$ 101,184,335	\$ 87,426,679	\$ (13,757,656)	115.74%	\$ 24,003,648	-57.31%
1/1/2009	115,563,078	100,741,210	(14,821,868)	114.71%	27,337,110	-54.22%
1/1/2011	126,518,465	132,493,119	5,974,654	95.49%	28,305,537	21.11%
1/1/2013	139,465,022	149,064,886	9,599,864	93.56%	27,286,203	35.18%

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%
1/1/2011	16,902,051	20,896,120	3,994,069	80.89%	314,909	1268.32%
1/1/2012	15,066,664	19,480,687	4,414,023	77.34%	250,324	1763.32%
1/1/2013	13,356,905 *	18,422,512	5,065,607	72.50%	250,856	2019.33%

Police Pension Fund Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2007	\$ 64,733,840	\$ 114,801,290	\$ 50,067,450	56.39%	\$ 10,126,336	494.43%
1/1/2009	62,199,346	132,505,514	70,306,168	46.94%	11,384,012	617.59%
1/1/2010	63,645,665	138,286,771	74,641,106	46.02%	13,001,025	574.12%
1/1/2011	62,355,723	142,839,885	80,484,162	43.65%	13,821,650	582.31%
1/1/2012	62,180,973	149,835,573	87,654,600	41.50%	13,788,954	635.69%
1/1/2013	62,906,225 *	153,683,203	90,776,978	40.93%	14,487,385	626.59%

Firemen Pension Fund Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2007	\$ 43,525,113	\$ 64,764,292	\$ 21,239,179	67.21%	\$ 7,350,267	288.96%
1/1/2009	42,706,507	77,233,681	34,527,174	55.30%	9,386,995	367.82%
1/1/2010	43,397,737	83,711,449	40,313,712	51.84%	10,179,600	396.02%
1/1/2011	43,052,580	90,866,138	47,813,558	47.38%	10,475,590	456.43%
1/1/2012	43,074,495	105,216,504	62,142,009	40.94%	7,558,653	822.13%
1/1/2013	41,080,022 *	106,673,257	65,593,235	38.51%	9,755,213	672.39%

* - Because the note proceeds were not deposited into the Plans as of January 1, 2013, the actuarial value of assets noted above does not include such proceeds.

CITY OF ALLENTOWN, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF FUNDING PROGRESS

City Plans:

Other Post-Employment Benefit Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
1/1/2010	-	\$ 50,225,539	\$ 50,225,539	0.00%	\$ 47,201,802	106.41%
1/1/2012	-	61,446,071	61,446,071	0.00%	45,638,245	134.64%
1/1/2013	-	74,006,955	74,006,955	0.00%	40,290,000	183.69%

Parking Authority:

Defined 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)
1/1/2007	\$ 1,976,195	\$ 2,192,368	\$ 216,173	90.14%	\$ 589,249	36.69%
1/1/2009	2,140,629	2,687,113	546,484	79.66%	619,827	88.17%
1/1/2011	2,793,687	2,732,901	(60,786)	102.22%	N/A	N/A
1/1/2013	2,936,804	2,924,774	(12,030)	100.41%	N/A	N/A

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	\$ -	\$ 345,602	\$ 345,602	0.00%	\$ 605,005	57.12%
1/1/2011	52,414	449,381	396,967	11.66%	615,954	64.45%

CITY OF ALLENTOWN, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF EMPLOYER'S CONTRIBUTIONS

Year	Officers and Employees		Police		Firemen	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2008	\$ 355,279	100%	\$ 6,022,935	100%	\$3,106,329	100%
2009	451,053	100%	7,115,495	100%	3,565,384	101%
2010	343,531	100%	5,726,720	100%	3,133,439	100%
2011	514,014	104%	7,338,716	104%	4,146,949	104%
2012	512,669	113%	7,324,133	113%	4,069,771	113%
2013	81,097	100%	2,276,774	100%	1,508,323	100%

Year	Pennsylvania Municipal Retirement System		Other Post-Employment Benefits	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2008	\$ 1,374,389	100%	\$ 3,856,279	47%
2009	1,217,945	100%	3,734,207	49%
2010	1,186,454	100%	3,760,413	56%
2011	1,367,093	100%	3,892,027	64%
2012	1,299,757	100%	4,663,870	62%
2013	1,612,483	100%	5,438,743	73%

CITY OF ALLENTOWN, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION ACTUARIAL INFORMATION

	Police Pension Fund	Firemen Pension Fund	Officers and Employees Pension Fund	Other Post-Employment Benefits
Valuation date	January 1, 2013	January 1, 2013	January 1, 2013	January 1, 2013
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	13.4 years	15.9 years	10.4 years	25 years
Asset valuation method	*	*	*	N/A
Actuarial assumptions:				
Investment rate of return	8.00%	8.00%	8.00%	4.00%
Projected salary increases	3.50%-4.50%	4.50%	4.50%	3.5% per year due to inflation plus 1.0% due to merit

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

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CITY OF ALLENTOWN, PENNSYLVANIA
COMBINING BALANCE SHEET
OTHER NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2013

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Liquid Fuels	Community Development Block Grant	Revolving Loan	Trexler	E-911	Debt Service	
Assets							
Cash and cash equivalents	\$ 1,549,676	\$ 501,900	\$ 16,337	\$ -	\$ 1,755,327	\$ -	\$ 3,823,240
Receivables:							
Loans	-	4,580,466	1,312,558	-	-	-	5,893,024
Grants	-	577,826	-	761,790	-	-	1,339,616
Accounts	-	-	-	-	113,395	-	113,395
Interest	-	-	-	5,749	-	-	5,749
Due from other funds	-	-	-	113,342	145,226	-	258,568
Total Assets	\$ 1,549,676	\$ 5,660,192	\$ 1,328,895	\$ 880,881	\$ 2,013,948	\$ -	\$ 11,433,592
Liabilities and Fund Balance							
Liabilities:							
Accounts payable	\$ 164,935	\$ 79,249	\$ -	\$ 6,767	\$ 1,580	\$ -	\$ 252,531
Wages payable	20,838	-	-	15,931	-	-	36,769
Due to other funds	-	360,916	1,320	499,313	1,282,036	-	2,143,585
Unearned revenue	-	-	-	510,479	-	-	510,479
Other liabilities	-	54,654	-	-	-	-	54,654
Total Liabilities	185,773	494,819	1,320	1,032,490	1,283,616	-	2,998,018
Fund Balance:							
Restricted	1,363,903	5,165,373	1,327,575	-	730,332	-	8,587,183
Unassigned	-	-	-	(151,609)	-	-	(151,609)
Total Fund Balance	1,363,903	5,165,373	1,327,575	(151,609)	730,332	-	8,435,574
Total Liabilities and Fund Balance	\$ 1,549,676	\$ 5,660,192	\$ 1,328,895	\$ 880,881	\$ 2,013,948	\$ -	\$ 11,433,592

CITY OF ALLENTOWN, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2013

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Liquid Fuels	Community Development Block Grant	Revolving Loan	Trexler	E-911	Debt Service	
Revenues:							
Investment earnings	\$ -	\$ 24	\$ 13	-	\$ 357	-	\$ 394
Intergovernmental revenues	2,108,873	2,939,186	230,677	1,292,693	-	-	6,571,429
Other	71,979	119,560	-	20,672	2,179,056	-	2,391,267
Total revenues	2,180,852	3,058,770	230,690	1,313,365	2,179,413	-	8,963,090
Expenditures:							
Current:							
General government	-	-	-	-	-	6,078	6,078
Public safety	-	-	-	-	3,155,588	-	3,155,588
Community development	-	2,497,094	-	-	-	-	2,497,094
Public works	1,856,965	-	-	-	-	-	1,856,965
Parks and recreation	-	-	-	1,187,862	-	-	1,187,862
Debt service:							
Principal	-	-	-	-	-	3,874,400	3,874,400
Interest	-	-	-	-	-	3,827,906	3,827,906
Capital outlay	134,346	-	-	-	-	-	134,346
Total expenditures	1,991,311	2,497,094	-	1,187,862	3,155,588	7,708,384	16,540,239
Excess (Deficiency) of Revenues Over (Under) Expenditures	189,541	561,676	230,690	125,503	(976,175)	(7,708,384)	(7,577,149)

(Continued)

CITY OF ALLENTOWN, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2013
(Continued)

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Liquid Fuels	Community Development Block Grant	Revolving Loan	Trexler	E-911	Debt Service	
Other Financing Sources (Uses):							
Transfers in	-	-	-	-	1,080,583	7,708,384	8,788,967
Transfers out	-	-	-	(247,806)	(6,781)	-	(254,587)
Total other financing sources (uses)	-	-	-	(247,806)	1,073,802	7,708,384	8,534,380
Net Change in Fund Balance	189,541	561,676	230,690	(122,303)	97,627	-	957,231
Fund Balance (Deficit):							
Beginning of year	1,174,362	4,603,697	1,096,885	(29,306)	632,705	-	7,478,343
End of year	<u>\$ 1,363,903</u>	<u>\$ 5,165,373</u>	<u>\$ 1,327,575</u>	<u>\$ (151,609)</u>	<u>\$ 730,332</u>	<u>\$ -</u>	<u>\$ 8,435,574</u>

(Concluded)

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - CAPITAL PROJECTS FUND

YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ -	\$ -	\$ 140,988	\$ 140,988
Intergovernmental revenues	-	791,735	21,818,535	21,026,800
Other	-	-	4,355	4,355
Total revenues	-	791,735	21,963,878	21,172,143
Expenditures:				
Current:				
Capital outlay	63,404,999	65,922,661	28,611,044	37,311,617
Total expenditures	63,404,999	65,922,661	28,611,044	37,311,617
Excess (Deficiency) of Revenues over Expenditures	(63,404,999)	(65,130,926)	(6,647,166)	58,483,760
Other Financing Sources (Uses):				
Transfers in	1,045,000	2,770,927	3,725,927	955,000
Transfer out	-	-	(2,000,000)	(2,000,000)
Total other financing sources (uses)	1,045,000	2,770,927	1,725,927	(1,045,000)
Net Change in Fund Balance	\$ (62,359,999)	\$ (62,359,999)	(4,921,239)	\$ 57,438,760
Net effect of other income and expenditure accruals			2,445,844	
Net Change in Fund Balance			(2,475,395)	
Fund Balance:				
Beginning of year			3,373,173	
End of year			<u>\$ 897,778</u>	

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - LIQUID FUELS FUND

YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
<u>Intergovernmental revenues:</u>				
PA Liquid Fuels Tax	\$2,120,384	\$2,120,384	\$2,078,880	\$ (41,504)
State aid for pension	13,079	13,079	29,993	16,914
Total intergovernmental revenues	<u>2,133,463</u>	<u>2,133,463</u>	<u>2,108,873</u>	<u>(24,590)</u>
<u>Other income:</u>				
Miscellaneous	67,192	67,192	71,979	4,787
Total other income	<u>67,192</u>	<u>67,192</u>	<u>71,979</u>	<u>4,787</u>
Total revenues	<u>2,200,655</u>	<u>2,200,655</u>	<u>2,180,852</u>	<u>(19,803)</u>
Expenditures:				
<u>Public works:</u>				
Department of Public Works:				
Streets	2,386,874	2,447,783	1,991,311	456,472
Total public works	<u>2,386,874</u>	<u>2,447,783</u>	<u>1,991,311</u>	<u>456,472</u>
Total expenditures	<u>2,386,874</u>	<u>2,447,783</u>	<u>1,991,311</u>	<u>456,472</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(186,219)</u>	<u>(247,128)</u>	189,541	436,669
Net Change in Fund Balance	<u>\$ (186,219)</u>	<u>\$ (247,128)</u>	189,541	<u>\$ 436,669</u>
Fund Balance:				
Beginning of year			1,174,362	
End of year			<u>\$1,363,903</u>	

CITY OF ALLENTOWN, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE BUDGETARY BASIS - DEBT SERVICE FUND

YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures:				
<u>Current:</u>				
General government	\$ 35,000	\$ 35,000	\$ 6,078	\$ 28,922
Debt service - principal	3,035,458	3,874,400	3,874,400	-
Debt service - interest	4,666,878	3,827,936	3,827,906	30
Total expenditures	<u>7,737,336</u>	<u>7,737,336</u>	<u>7,708,384</u>	<u>28,952</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(7,737,336)</u>	<u>(7,737,336)</u>	<u>(7,708,384)</u>	<u>28,952</u>
Other Financing Sources (Uses):				
Transfers in	<u>7,737,336</u>	<u>7,737,336</u>	<u>7,708,384</u>	<u>(28,952)</u>
Total other financing sources (uses)	<u>7,737,336</u>	<u>7,737,336</u>	<u>7,708,384</u>	<u>(28,952)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF ALLENTOWN, PENNSYLVANIA

COMBINING SCHEDULES OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS

YEAR ENDED DECEMBER 31, 2013

	Balance January 1, 2013	Additions	Deductions	Balance December 31, 2013
Earned Income Tax Escrow				
Assets:				
Cash and cash equivalents	\$ 184,737	\$ 11,067	\$ 7,410	\$ 188,394
Total assets	\$ 184,737	\$ 11,067	\$ 7,410	\$ 188,394
Liabilities:				
Due to other governments	\$ 184,737	\$ 11,067	\$ 7,410	\$ 188,394
Total liabilities	\$ 184,737	\$ 11,067	\$ 7,410	\$ 188,394
Payroll Withholding Funds				
Assets:				
Cash and cash equivalents	\$ 1,325,059	\$ 15,741,050	\$ 16,378,492	\$ 687,617
Total assets	\$ 1,325,059	\$ 15,741,050	\$ 16,378,492	\$ 687,617
Liabilities:				
Payroll tax liability	\$ 1,314,577	\$ 15,705,688	\$ 16,343,197	\$ 677,068
Due to other governments	10,482	35,362	35,295	10,549
Total liabilities	\$ 1,325,059	\$ 15,741,050	\$ 16,378,492	\$ 687,617
Tax Collection Fund				
Assets:				
Cash and cash equivalents	\$ 4,239	\$ 246	\$ 1,889	\$ 2,596
Total assets	\$ 4,239	\$ 246	\$ 1,889	\$ 2,596
Liabilities:				
Due to other governments	\$ 4,239	\$ 246	\$ 1,889	\$ 2,596
Total liabilities	\$ 4,239	\$ 246	\$ 1,889	\$ 2,596
Total All Agency Funds				
Assets:				
Cash and cash equivalents	\$ 1,514,035	\$ 15,752,363	\$ 16,387,791	\$ 878,607
Total assets	\$ 1,514,035	\$ 15,752,363	\$ 16,387,791	\$ 878,607
Liabilities:				
Payroll tax liability	\$ 1,314,577	\$ 15,705,688	\$ 16,343,197	\$ 677,068
Due to other governments	199,458	46,675	44,594	201,539
Total liabilities	\$ 1,514,035	\$ 15,752,363	\$ 16,387,791	\$ 878,607

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

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CITY OF ALLENTOWN PENNSYLVANIA

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Net Investment in Capital Assets	\$ 20,907,099	\$ 26,835,473	\$ 20,563,347	\$ 17,098,445	\$ 20,127,498	\$ 19,175,187	\$ 25,370,253	\$ 30,108,596	\$ 32,494,392	\$ 126,410,580
Restricted	8,421,791	8,910,203	9,594,133	7,971,503	9,304,474	6,172,117	6,107,402	6,648,978	12,274,999	162,936,167
Unrestricted	(39,083,486)	(37,369,388)	(21,666,333)	(7,510,520)	(20,610,569)	(23,777,059)	(22,257,663)	(26,754,250)	(33,811,444)	(182,008,900)
Total governmental activities net position	(9,754,596)	(1,623,712)	8,491,147	17,559,428	8,821,403	1,570,245	9,219,992	10,003,324	10,957,947	107,337,847
Business - type activities										
Net Investment in Capital Assets	48,253,494	53,403,909	57,148,473	58,612,743	60,620,384	62,390,291	63,445,317	64,695,490	68,128,410	5,551,723
Unrestricted	16,817,214	16,656,539	16,984,799	14,828,068	16,822,538	15,462,445	17,482,965	18,313,389	17,236,205	6,693,350
Total business - type activities net position	65,070,708	70,060,448	74,133,272	73,440,811	77,442,922	77,852,736	80,928,282	83,008,879	85,364,615	12,245,073
Primary government										
Net Investment in Capital Assets	69,160,593	80,239,382	77,711,820	75,711,188	80,747,882	81,565,478	88,815,570	94,804,086	100,622,802	131,962,303
Restricted	8,421,791	8,910,203	9,594,133	7,971,503	9,304,474	6,172,117	6,107,402	6,648,978	12,274,999	162,936,167
Unrestricted	(22,286,272)	(20,712,849)	(4,681,534)	(7,317,548)	(3,788,031)	(8,314,614)	(4,774,698)	(8,440,861)	(16,575,239)	(175,315,550)
Total primary government activities net position	\$ 55,316,112	\$ 68,436,736	\$ 82,624,419	\$ 91,000,239	\$ 86,264,325	\$ 79,422,981	\$ 90,148,274	\$ 93,012,203	\$ 96,322,562	\$ 119,582,920

Note:

On August 7, 2013, the City of Allentown and Lehigh County Authority (LCA) entered into a 50-year concession lease allowing LCA to operate, service and maintain the City water resource and waste water operations system. In conjunction with the lease agreement, certain assets of the Water and Sewer Funds (business-type activities) were transferred to LCA. At December 31, 2013, all remaining assets and liabilities of the Water Fund and the Sewer Fund (business-type activities) were transferred to the General Fund or Governmental Activities. Generally accepted accounting principles require that the proceeds from the concession lease be reported as a deferred inflow of resources and, thus, are recognized as revenue over the term of the lease. From the proceeds of the lease, the City loaned, and subsequently forgave, a \$160 million loan to the City's pension funds. This resulted in a net pension asset that is reported as restricted net position of governmental activities. Additionally, during the year ended December 31, 2013, the City invested approximately \$23 million in bridge and road expansion projects.

CITY OF ALLENTOWN, PENNSYLVANIA

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental Activities:										
General government	\$ 6,645,606	\$ 8,363,679	\$ 11,591,907	\$ 8,496,511	\$ 14,193,579	\$ 14,514,780	\$ 7,932,566	\$ 13,916,289	\$ 16,164,160	\$ 16,865,074
Public safety	36,982,770	37,329,606	35,746,269	44,659,264	50,050,802	51,117,977	54,309,067	52,607,308	54,635,907	48,764,915
Community development	8,911,593	8,240,887	8,687,031	9,508,856	12,544,800	12,544,800	13,845,854	9,773,209	8,128,929	7,909,900
Public works	10,605,482	11,113,362	11,363,182	11,262,288	11,874,900	9,353,946	12,617,569	11,920,300	12,066,315	13,962,846
Health and sanitation	3,461,871	3,375,154	4,450,785	3,283,888	3,045,226	2,285,122	2,547,999	3,373,570	2,763,477	3,116,962
Parks and recreation	2,376,253	3,071,350	3,392,513	3,527,522	3,603,363	2,583,320	2,014,847	3,038,880	2,910,615	3,938,834
Other	9,498,938	339,076	1,141,913	-	-	-	-	-	-	-
Interest on long-term debt	3,115,775	3,940,612	3,996,208	4,373,290	3,577,271	3,952,622	5,071,431	5,481,742	5,331,070	4,997,583
Total governmental activities expenses	\$ 81,598,288	\$ 75,773,726	\$ 80,369,808	\$ 85,111,619	\$ 98,893,979	\$ 96,352,567	\$ 98,339,353	\$ 100,111,298	\$ 101,998,473	\$ 99,556,114
Business - type activities:										
Water fund	9,959,147	10,726,077	10,268,694	10,846,997	10,663,179	10,932,251	11,410,407	11,308,214	10,999,925	8,718,973
Sewer fund	11,422,394	11,898,997	12,376,807	13,047,950	12,807,533	13,639,529	13,034,825	13,533,543	14,242,086	9,673,907
Solid waste fund	9,316,884	9,417,855	9,530,362	11,565,750	12,528,680	12,578,028	12,584,872	13,170,266	14,549,004	14,529,054
Municipal golf course	925,727	851,582	735,697	1,057,970	1,078,094	1,076,235	1,027,292	1,152,872	1,167,107	1,204,675
Total business - type activities expenses	\$ 31,624,152	\$ 32,894,511	\$ 32,911,560	\$ 36,518,667	\$ 36,877,486	\$ 38,226,043	\$ 38,057,396	\$ 39,164,895	\$ 40,958,122	\$ 34,126,609
Total primary government expenses	\$ 113,222,440	\$ 108,668,237	\$ 113,281,368	\$ 121,630,286	\$ 135,771,465	\$ 134,578,610	\$ 136,396,749	\$ 139,276,193	\$ 142,956,595	\$ 133,682,723
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 1,031,734	\$ 1,097,664	\$ 1,169,888	\$ 3,100,711	\$ 5,864,480	\$ 5,849,055	\$ 2,209,673	\$ 4,880,342	\$ 4,131,189	\$ 4,080,763
Public safety	4,582,892	4,710,383	5,792,822	6,678,609	6,602,040	7,043,765	7,202,889	3,792,692	3,627,974	3,820,867
Community development	1,505,949	1,575,685	1,560,786	1,607,840	1,949,934	1,782,643	3,174,152	3,249,126	3,325,198	3,839,739
Public works	623,799	454,628	941,958	2,669,591	1,418,930	2,463,882	183,134	192,673	189,821	277,561
Health and sanitation	155,087	151,448	181,677	224,221	177,924	170,013	180,922	192,961	436,682	309,931
Parks and recreation	378,200	335,559	327,358	366,715	332,878	358,414	411,409	424,910	418,634	461,267
Other	-	2,866,112	5,187,455	-	-	-	-	-	-	-
Water and sewer	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	7,703,267	11,592,544	12,512,597	10,645,301	17,197,783	11,452,802	14,153,060	13,696,509	13,496,058	3,430,049
Capital grants and contributions	1,779,448	2,845,673	2,232,405	1,400,090	3,180,479	2,129,468	4,350,695	5,335,856	5,654,879	17,010,242
Total governmental activities program revenues	\$ 17,760,376	\$ 25,629,696	\$ 29,906,946	\$ 26,892,078	\$ 36,824,448	\$ 31,250,042	\$ 31,865,934	\$ 31,565,069	\$ 31,280,435	\$ 57,386,026
Business - type activities:										
Charges for services:										
Water fund	14,169,008	14,380,000	14,639,594	14,167,850	14,122,453	13,194,621	15,220,117	14,878,781	15,525,790	8,782,028
Sewer fund	14,365,042	17,052,181	16,104,610	14,752,734	15,035,859	15,089,091	14,480,766	15,595,169	14,331,640	8,798,348
Solid waste fund	8,701,576	8,884,440	8,830,880	11,538,022	13,589,330	13,692,638	13,467,648	13,692,905	14,837,965	14,935,518
Municipal golf course	945,130	950,416	1,067,497	1,249,958	1,278,723	1,296,871	1,316,067	1,321,422	1,383,066	1,279,247
Operating grants and contributions	1,571,561	1,025,750	808,377	948,666	823,762	397,701	1,280,326	828,291	1,630,127	887,428
Capital grants and contributions	-	152,000	-	-	-	-	-	-	-	-
Total business-type activities program revenues	\$ 39,752,317	\$ 42,444,787	\$ 41,450,958	\$ 42,657,230	\$ 44,850,127	\$ 43,271,022	\$ 45,764,924	\$ 46,316,568	\$ 47,708,588	\$ 34,682,569
Total primary government program revenues	\$ 57,512,693	\$ 68,074,483	\$ 71,357,904	\$ 69,549,308	\$ 81,674,575	\$ 74,521,064	\$ 77,630,858	\$ 77,881,637	\$ 78,989,023	\$ 92,070,595
Net (expense)/revenue:										
Governmental activities	\$ (63,837,912)	\$ (50,144,030)	\$ (50,462,862)	\$ (58,419,541)	\$ (62,369,531)	\$ (65,102,525)	\$ (66,473,419)	\$ (68,546,229)	\$ (70,718,038)	\$ (42,168,088)
Business - type activities	8,128,165	9,550,276	8,539,398	6,138,563	7,972,641	5,044,979	7,707,528	7,151,673	6,750,466	555,960
Total primary government net expense	\$ (55,709,747)	\$ (40,593,754)	\$ (41,923,464)	\$ (52,280,978)	\$ (54,396,890)	\$ (60,057,546)	\$ (58,765,891)	\$ (61,394,556)	\$ (63,967,572)	\$ (41,612,128)

CITY OF ALLENTOWN, PENNSYLVANIA

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Revenue and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes and other taxes	\$ 40,058,771	\$ 46,918,139	\$ 48,512,216	\$ 52,579,329	\$ 47,186,003	\$ 47,948,307	\$ 45,476,784	\$ 51,955,525	\$ 57,041,497	\$ 58,031,788
Grants and charges not restricted to specific purposes	6,833,526	6,065,062	6,146,246	6,028,421	1,313,230	5,048,294	14,121,087	12,298,352	10,216,783	10,290,239
Investment earnings	499,128	596,402	973,003	1,490,757	782,789	223,172	212,979	4,608	19,651	69,236
Transfers	3,427,863	4,671,851	4,946,256	7,389,315	4,369,484	4,631,594	4,813,116	5,071,076	4,394,730	71,674,238
Total governmental activities	\$ 50,819,288	\$ 58,251,444	\$ 60,577,721	\$ 67,487,822	\$ 53,631,506	\$ 57,851,367	\$ 64,623,966	\$ 69,329,561	\$ 71,672,661	\$ 140,065,501
Business - type activities:										
Investment earnings	175,656	111,315	479,682	558,291	398,954	(3,571)	128,545	-	-	132,218
Transfers	(3,427,863)	(4,671,851)	(4,946,256)	(7,389,315)	(4,369,484)	(4,631,594)	(4,813,116)	(5,071,076)	(4,394,730)	(71,674,238)
Special items:										
Gain on cancellation of post-employment benefits	-	-	-	-	-	-	-	-	-	660,819
Loss on extinguishment of debt	(3,252,207)	(4,560,536)	(4,466,574)	(6,831,024)	(3,970,530)	(4,635,165)	(4,884,571)	(5,071,076)	(4,394,730)	(1,959,898)
Total business - type activities	\$ 47,567,081	\$ 53,690,908	\$ 56,111,147	\$ 60,656,798	\$ 49,660,976	\$ 53,216,202	\$ 59,939,395	\$ 64,258,485	\$ 67,277,931	\$ 67,224,402
Change in Net Position										
Governmental activities	\$ (13,018,624)	\$ 8,107,414	\$ 10,114,859	\$ 9,068,281	\$ (8,738,025)	\$ (7,251,158)	\$ (1,849,453)	\$ 783,332	\$ 954,623	\$ 97,897,413
Business - type activities	4,875,958	4,989,740	4,072,824	(692,461)	4,002,111	409,814	3,022,957	2,080,597	2,355,736	(72,285,139)
Total primary government	\$ (8,142,666)	\$ 13,097,154	\$ 14,187,683	\$ 8,375,820	\$ (4,735,914)	\$ (6,841,344)	\$ 1,173,504	\$ 2,863,929	\$ 3,310,359	\$ 25,612,274

Note:

On August 7, 2013, the City of Allentown and Lehigh County Authority (LCA) entered into a 50-year concession lease allowing LCA to operate, service and maintain the City water resource and waste water operations system. Therefore, operations of the water and sewer systems were terminated as of the effective date of the concession lease. At December 31, 2013, all remaining assets and liabilities of the Water Fund and the Sewer Fund (business-type activities) were transferred to the General Fund or Governmental Activities. Amortization of the concession lease proceeds is included in charges - water and sewer. From the proceeds of the lease, the City extinguished a majority of the Water and Sewer Fund related debt and post-employment benefits were cancelled for Water and Sewer Fund employees. The net effects of these transactions are presented as special items.

During the year ended December 31, 2013, the City invested approximately \$23 million in bridge and road expansion projects that were substantially funded with grant revenue.

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>
2004	\$ 39,413,259	\$ 24,310,225	\$ 6,620,027	\$ 6,052,939	\$ 2,430,068
2005	46,918,139	29,437,515	7,091,890	5,987,283	4,401,451
2006	48,512,216	29,777,503	7,173,393	6,376,629	5,184,691
2007	52,579,329	29,401,764	8,244,860	6,487,096	8,445,609
2008	47,186,003	29,593,673	7,554,503	6,311,326	3,726,501
2009	47,948,307	29,761,519	8,555,867	6,512,894	3,118,027
2010	45,476,784	29,591,030	7,506,990	6,063,934	2,314,830
2011	51,955,525	29,310,491	12,744,483	6,795,191	3,105,360
2012	57,041,497	29,823,087	17,731,754	6,636,744	2,849,912
2013	58,031,788	29,711,628	19,148,315	6,307,675	2,864,170

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 4

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Reserved	-	-	-	\$ 1,571,640	\$ 840,183	\$ 810,719	\$ 1,428,755	\$ -	\$ -	\$ -
Unreserved	\$ (3,312,208)	\$ (2,711,620)	\$ 9,128,441	12,565,940	7,365,006	3,476,985	1,687,909	-	-	-
Restricted	-	-	-	-	-	-	-	147,000	704,228	794,058
Assigned	-	-	-	-	-	-	-	1,771,079	-	21,588,122
Unassigned	-	-	-	-	-	-	-	2,467	(1,445,400)	24,022,470
Total general fund	(3,312,208)	(2,711,620)	9,128,441	14,137,580	8,205,189	4,287,704	3,116,664	1,920,546	(741,172)	46,404,650
All other governmental funds										
Reserved	15,071,930	12,275,288	11,014,501	13,176,308	10,743,716	10,532,748	7,243,969	-	-	-
Unreserved, reported in:										
Special revenue funds	-	-	-	(469,193)	(1,061,877)	(629,676)	(95,108)	-	-	-
Capital projects funds	-	-	-	-	-	-	404,985	-	-	-
Restricted	-	-	-	-	-	-	-	14,228,537	10,880,822	9,484,961
Unassigned	-	-	-	-	-	-	-	(96,134)	(29,306)	(151,609)
Total all other governmental funds	15,071,930	12,275,288	11,014,501	12,707,115	9,681,839	9,903,072	7,553,846	14,132,403	10,851,516	9,333,352
TOTAL	\$ 11,759,722	\$ 9,563,668	\$ 20,142,942	\$ 26,844,695	\$ 17,887,028	\$ 14,190,776	\$ 10,670,510	\$ 16,052,949	\$ 10,110,344	\$ 55,738,002

Note:

On August 7, 2013, the City of Allentown and Lehigh County Authority (LCA) entered into a 50-year concession lease allowing LCA to operate, service and maintain the City water resource and waste water operations system. In conjunction with the lease agreement, certain assets of the Water and Sewer Funds were transferred to LCA. At December 31, 2013, all remaining assets and liabilities of the Water Fund and the Sewer Fund were transferred to the General Fund or Governmental Activities. Certain proceeds from the concession lease have been assigned for pension benefits.

CITY OF ALLENTOWN, PENNSYLVANIA
Changes in Fund Balances of Governmental Funds
Last Ten Years
(modified accrual basis of accounting)

TABLE 5

	2006	2007	2008	2009	2010	2011	2012	2013
Revenues								
Taxes	\$ 47,342,430	\$ 51,368,491	\$ 47,039,202	\$ 47,630,562	\$ 45,438,333	\$ 52,770,021	\$ 55,787,638	\$ 57,865,676
Licenses and permits	3,248,191	3,477,297	3,459,268	3,571,616	4,874,549	5,030,946	5,230,576	5,781,973
Charges for services	4,612,567	6,613,544	5,864,796	7,155,768	4,853,162	4,624,140	4,898,943	6,615,357
Fines and forfeits	578,363	580,737	582,504	461,834	500,334	518,350	634,724	672,105
Investment earnings	961,195	1,471,916	758,833	223,172	212,979	4,608	19,686	69,236
Intergovernmental revenues	19,846,232	17,152,512	24,407,606	20,897,082	30,437,462	28,695,423	26,927,447	49,185,888
Other	4,131,305	4,177,786	3,664,260	4,374,132	5,437,568	4,906,361	3,945,339	3,961,421
Total revenues	80,720,283	84,842,283	85,786,469	84,314,166	91,754,387	96,749,649	97,464,353	124,151,656
Expenditures								
General government	11,112,672	7,806,908	7,962,093	7,656,616	7,507,262	13,765,436	14,417,230	18,108,503
Public safety	34,632,057	43,639,004	47,424,025	49,916,239	50,100,384	50,839,312	53,491,745	196,455,831
Community development	8,614,385	9,442,326	12,482,112	12,605,261	14,171,165	9,731,882	7,835,133	7,669,312
Public works	9,267,279	9,389,687	9,985,082	9,747,558	9,740,759	9,631,143	9,658,216	12,262,727
Health and sanitation	4,402,484	3,240,066	3,005,201	2,648,017	2,738,801	2,809,068	2,673,529	3,420,443
Parks and recreation	2,734,768	2,925,564	3,107,688	2,851,795	2,503,318	2,467,866	2,467,730	3,963,487
Debt service:								
Principal	5,134,432	3,618,900	2,633,800	2,575,600	3,131,400	6,514,100	3,395,750	3,874,400
Interest	3,894,144	4,395,128	3,790,889	3,960,851	3,942,027	4,423,008	4,180,843	3,827,906
Payment of loan issuance costs	251,525	4,395,871	261,309	49,786	-	-	-	-
Capital outlay	7,245,177	1,379,020	10,351,660	5,988,589	10,009,124	9,912,486	10,610,482	28,386,348
Total expenditures	87,288,923	90,382,474	101,003,869	98,000,312	103,844,240	110,094,301	108,730,658	277,968,957
Excess (deficiency) of revenues over (under) expenditures	(6,568,640)	(5,540,191)	(15,217,400)	(13,686,146)	(12,089,853)	(13,344,452)	(11,266,305)	(153,817,301)
Other Financing Sources (uses):								
Issuance of long term debt	12,063,400	22,763,981	6,665,000	5,310,000	258,976	13,690,000	5,910,000	-
Payment to refunded bonds escrow agent	-	(17,850,000)	(6,410,000)	-	-	-	(5,828,246)	-
Bond premium	-	6,309	6,309	-	-	38,630	-	-
Bond discount	-	(379,897)	-	-	-	(126,066)	(16,111)	-
Capital lease obligations	105,077	273,220	1,582,940	-	-	-	-	102,950
Transfers in	14,405,814	18,766,342	12,046,134	12,408,683	12,749,243	13,793,454	13,651,068	213,779,083
Transfers out	(9,416,378)	(11,331,702)	(7,630,650)	(7,728,789)	(7,885,411)	(8,669,127)	(8,393,011)	(14,437,074)
Total other financing sources and uses	17,147,913	12,241,944	6,259,793	9,989,894	5,122,808	18,726,891	5,323,700	199,444,959
Net change in fund balances	\$ 10,579,273	\$ 6,701,753	\$ (8,957,667)	\$ (3,696,252)	\$ (6,967,045)	\$ 5,382,439	\$ (5,942,605)	\$ 45,627,658
Debt service as a percentage of noncapital expenditures	11.3%	9.0%	7.1%	7.1%	7.5%	10.9%	7.7%	3.1%

Note:
 On August 7, 2013, the City of Allentown and Lehigh County Authority (LCA) entered into a 50-year concession lease allowing LCA to operate, service and maintain the City water resource and waste water operations system. In conjunction with the lease agreement, certain assets of the Water and Sewer Funds were transferred to LCA. At December 31, 2013, all remaining assets and liabilities of the Water Fund and the Sewer Fund were transferred to the General Fund or Governmental Activities. The proceeds of the lease, remaining after extinguishment of the Water and Sewer Fund debt, were transferred to the General Fund. The City then loaned, and subsequently forgave, a \$160 million loan to the City's pension funds.
 During the year ended December 31, 2013, the City invested approximately \$23 million in bridge and road expansion projects that were substantially funded with grant revenue.

CITY OF ALLENTOWN, PENNSYLVANIA

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

Fiscal Year Ended December 31	Real Property				Total Taxable Assessed Value	Tax Exempt Real Property	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value (1)
	Residential Property	Commercial Property	Multi-Family Property	Combination Property					
2004	\$ 1,021,530,450	\$ 374,465,250	\$ 223,492,850	\$ 53,293,100	\$ 1,687,383,150	\$ 424,079,700	0.015	\$ 3,374,766,300	50%
2005	1,032,293,650	370,311,000	224,461,600	53,539,900	1,695,311,600	428,009,300	0.018	3,390,623,200	50%
2006	1,037,145,800	361,532,150	227,440,000	53,261,600	1,701,676,900	426,922,950	0.018	3,403,353,800	50%
2007	1,043,076,850	359,764,550	229,505,550	53,559,500	1,707,685,400	433,570,800	0.018	3,415,370,800	50%
2008	1,042,615,000	356,065,600	229,692,650	53,612,150	1,703,876,850	427,335,700	0.018	3,407,753,700	50%
2009	1,049,378,500	359,395,350	231,912,550	53,227,200	1,709,908,850	466,210,300	0.018	3,419,817,700	50%
2010	1,050,521,900	352,885,300	229,726,000	52,937,100	1,702,735,950	471,422,500	0.018	3,405,471,900	50%
2011	1,053,338,350	351,299,450	230,313,050	53,052,000	1,703,466,200	484,513,100	0.018	3,406,932,400	50%
2012	1,051,702,800	351,225,450	230,099,250	53,044,800	1,702,549,900	476,375,100	0.018	3,405,099,800	50%
2013	3,000,528,700	1,137,984,800	772,716,200	177,743,400	5,132,325,200	1,503,378,200	0.006	5,132,325,200	100%

Notes:

For the 2013 tax year, the County reassessed all real property values.

(1) Starting in 2013, the City assesses property at 100 percent of actual value for all types of real property (does not include tax exempt real property).

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 7

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

Fiscal Year	<u>Direct Rates</u>	<u>Overlapping Rates</u>		Total Direct & Overlapping Rates
	<u>Allentown City</u>	<u>School District</u>	<u>County</u>	
	Total City Millage(1)	Total School Millage	Total County Millage	
2004	14.72	39.490	10.75	64.96
2005	17.52	41.734	10.75	70.00
2006	17.53	42.942	10.25	70.72
2007	17.53	42.942	10.25	70.72
2008	17.53	42.942	10.25	70.72
2009	17.53	42.942	10.25	70.72
2010	17.53	45.592	10.25	73.37
2011	17.53	45.592	11.90	75.02
2012	17.53	49.332	11.90	78.76
2013	5.81	17.316	3.790	26.92

Notes:

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

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

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

(1) 5.81 is the base on which the land value tax is calculated (18.46231 - land and 3.49267 - improvements).

Starting in 2013, the City assesses property at 100 percent of actual value for all types of real property (does not include tax exempt real property)

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 8

Principal Property Taxpayers
Current Year and Nine Years Ago

<u>Taxpayer</u>	<u>2013</u>			<u>2004</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total taxable Assessed Valuation</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total taxable Assessed Valuation</u>
Plaza at 835 W Hamilton Street LP	\$ 57,960,000	1	1.14%			
Home Properties Trexler Park LLC	34,614,100	2	0.68%	\$ 4,773,900	10	0.28%
Congress Associates	27,336,300	3	0.54%	9,574,250	2	0.57%
Pennsylvania Power & Light Co.	22,240,500	4	0.44%			
The Lakes	21,834,500	5	0.43%	5,961,050	5	0.35%
Sharma Baldev Raj & Sudesh	20,200,000	6	0.40%			
Westmont LP	18,000,000	7	0.35%	5,141,850	8	0.31%
Morris Allentown Associates LP ET	17,882,600	8	0.35%			
Bulldog Ventures I LP	16,885,100	9	0.33%			
Lehigh Valley Hospital Inc.	16,570,800	10	0.33%	5,372,750	7	0.32%
Allentown Commerce Park Corp.				4,900,000	9	0.29%
The Morning Call				7,247,250	3	0.43%
Agere Systems/Lucent Technologies				14,337,350	1	0.85%
Mack Trucks Inc.				6,581,500	4	0.39%
Eastern Retail Holdings				5,753,700	6	0.34%
Total	<u>\$ 253,523,900</u>		<u>4.99%</u>	<u>\$ 69,643,600</u>		<u>4.13%</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		Collections in Subsequent Years	Total Collections to Date	
		Fiscal Year	Percentage of Levy		Amount	Percentage of Levy
2004	\$ 25,221,033	\$ 23,411,082	92.8%	\$ 881,314	\$ 24,292,396	96.3%
2005	29,804,140	28,226,175	94.7%	1,030,713	29,256,888	98.2%
2006	30,984,146	28,464,063	91.9%	1,004,841	29,468,904	95.1%
2007	31,311,392	27,958,172	89.3%	1,207,653	29,165,825	93.1%
2008	29,796,059	28,339,285	95.1%	1,135,816	29,475,101	98.9%
2009	29,383,171	28,143,621	95.8%	1,124,674	29,268,295	99.6%
2010	29,349,230	28,331,648	96.5%	1,005,231	29,336,879	100.0%
2011	29,481,538	28,274,829	95.9%	933,930	29,208,759	99.1%
2012	29,700,657	28,426,793	95.7%	719,803	29,146,596	98.1%
2013	29,788,671	28,335,558	95.1%	-	28,335,558	95.1%

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 10

Ratios of Outstanding Debt By Type
Last Ten Years

Fiscal Year	Governmental Activities				Business-Type Activities						Total Primary Government	Percentage of Personal Income	Per Capita
	Water		Sewer		Revenue Bonds and Note	General Obligation Bonds	Other	Revenue Bonds	General Obligation Bonds	Capital Leases			
	General Obligation Bonds	Capital Leases	Revenue Bonds and Note	General Obligation Bonds									
2004	\$ 89,330,000	\$ 1,663,615	\$ 32,040,000	-	\$ 1,400,000	\$ 17,430,000	-	\$ 3,298,664		\$ 145,162,279	4.30%	\$ 1,361	
2005	85,100,000	1,272,836	27,730,000	-	1,000,000	15,555,000	-	2,689,177		133,347,013	3.85%	1,251	
2006	92,518,968	1,024,181	23,570,200	-	500,000	14,000,000	-	2,172,144		133,785,493	3.71%	1,255	
2007	94,314,049	838,471	20,707,600	-	-	12,895,000	-	1,725,575		130,480,695	3.46%	1,224	
2008	91,935,249	1,907,720	18,202,400	-	-	12,235,000	-	1,140,421		125,420,790	3.18%	1,176	
2009	94,669,649	1,446,352	15,832,200	-	-	11,055,000	-	775,574		123,778,775	3.04%	1,161	
2010	94,853,046	1,219,995	13,355,600	-	-	9,825,000	-	237,485		119,491,126	2.63%	1,012	
2011	103,285,937	906,186	6,255,200	\$ 6,005,000	-	7,455,000	\$ 5,185,000	465,098		129,557,421	2.83%	1,098	
2012	102,750,151	654,732	4,471,200	5,190,000	2,140,123	6,240,000	5,075,000	644,817		127,166,023	2.69%	1,077	
2013	100,262,568	853,070	-	-	-	-	-	411,604		101,527,242	2.01%	860	

Note:

On August 7, 2013, the City of Allentown and Lehigh County Authority (LCA) entered into a 50-year concession lease allowing LCA to operate, service and maintain the City water resource and waste water operations system. As a result of the concession lease transaction, all water and sewer related debt were either defeased or extinguished with the exception of the 2006 Water Note that was transferred to Governmental Activities at December 31, 2013.

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

Fiscal Year	General Obligation Bonds	Percentage of Estimated Actual Taxable Value of Property	Per Capita
2004	\$ 89,330,000	2.65%	\$ 838
2005	85,100,000	2.51%	798
2006	92,518,968	2.72%	868
2007	94,314,049	2.76%	884
2008	91,935,249	2.70%	862
2009	94,669,649	2.77%	888
2010	94,853,046	2.79%	804
2011	114,475,937 (1)	3.36%	970
2012	113,015,151	3.32%	957
2013	100,262,568 (2)	1.95%	849

Notes:

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

(2) On August 7, 2013, the City of Allentown and Lehigh County Authority (LCA) entered into a 50-year concession lease allowing LCA to operate, service and maintain the City water resource and waste water operations system. As a result of the concession lease transaction, all water and sewer related debt were either defeased or extinguished with the exception of the 2006 Water Note.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 12

Direct and Overlapping Governmental Activities Debt
As of December 31, 2013

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Allentown School District	\$ 198,608,304	100.0%	\$ 198,608,304
Lehigh County General Obligation Bonds	155,092,675	19.6%	<u>30,398,164</u>
Subtotal, overlapping debt			229,006,468
City of Allentown Direct Debt			<u>101,115,638</u>
Total direct and overlapping debt			<u>\$ 330,122,106</u>

Notes:

(1) 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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Debt limit	\$ 185,516,142	\$ 228,107,156	\$ 237,239,268	\$ 257,334,258	\$ 257,943,550	\$ 258,815,970	\$ 259,225,834	\$ 274,575,453	\$ 290,328,835	\$ 309,275,843
Total net debt applicable to limit (2)	53,345,000	49,765,000	57,843,968	62,294,049	58,630,812	63,344,649	63,528,046	72,730,937	73,124,883	71,670,638
Legal debt margin	\$ 132,171,142	\$ 178,342,156	\$ 179,395,300	\$ 195,040,209	\$ 199,312,738	\$ 195,471,321	\$ 195,697,788	\$ 201,844,516	\$ 217,203,952	\$ 237,605,205
Total net debt applicable to the limit as a percentage of debt limit	28.75%	21.82%	24.38%	24.21%	22.73%	24.47%	24.51%	26.49%	25.19%	23.17%

Legal Debt Margin Calculation for Fiscal year 2013	
Borrowing base (1)	\$ 88,364,527
Percentage limitation	350%
Net debt limit	309,275,843
Debt applicable to limit:	
General obligation debt (2)	101,115,638
Less: Amount set aside for pension funding liability	(29,445,000)
	<u>71,670,638</u>
	\$ 237,605,205

Notes:
 (1) The Commonwealth of Pennsylvania has enacted the "Local Government Unit Debt Act" which limits debt to revenues. Briefly, revenues of the last three years are adjusted for various nonrecurring and excludable items. The average of the adjusted revenues for the respective years is then the borrowing base. Certain percentages are applied to the borrowing base to determine the debt limitations.
 (2) Excludes Water and Sewer General Obligation Bonds issued in 2011 because they are considered self-liquidating.

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)
2004	106,632	\$ 3,374,796,168	\$ 31,649	17,521	7.1%
2005	106,632	3,459,888,504	32,447	18,118	6.6%
2006	106,632	3,605,014,656	33,808	18,209	6.4%
2007	106,632	3,771,467,208	35,369	18,318	5.9%
2008	106,632	3,949,329,384	37,037	17,914	8.0%
2009	106,632	4,074,195,456	38,208	17,753	12.0%
2010	118,032	4,544,822,160	38,505	17,753	12.7%
2011	118,032	4,582,946,496	38,828	17,748	11.7%
2012	118,032	4,732,493,040	40,095	17,239	11.5%
2013	118,032	5,059,441,680	42,865	17,362	6.5%

Source:

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

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 16

Principal Employers
Current Year and Nine Years Ago

<u>Employer</u>	<u>2013</u>			<u>2004</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	2,372	1	5.14%	2,729	2	3.05%
PPL Co.	1,694	2	3.67%	1,830	8	2.05%
Lehigh County & Institutions	1,569	3	3.40%	2,142	5	2.39%
Muhlenberg College	1,528	4	3.31%	2,011	7	2.25%
Lehigh Valley Hospital	1,402	5	3.04%			
Sacred Heart Hospital	976	6	2.11%	1,656	9	1.85%
City of Allentown	888	7	1.92%			
Allied Personnel Services	887	8	1.92%	2,080	6	2.32%
St. Lukes Hospital Allentown	823	9	1.78%			
Good Shepherd Rehab	815	10	1.77%			
Contemporary Personnel				3,497	1	3.91%
Mack Trucks Inc.				2,454	4	2.74%
Performance Personnel				2,466	3	2.76%
Wachovia Services Inc.				1,370	10	1.53%
	<u>12,954</u>		<u>28.06%</u>	<u>22,235</u>		<u>24.85%</u>

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

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

CITY OF ALLENTOWN, PENNSYLVANIA

Full-Time Equivalent Employees By Function
Last Ten Years

Function	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Government	96	95	101	94	101	94	93	93	102	96
Public Safety										
Police										
Officers	247	235	237	207	211	203	205	209	219	214
Civilians	27	24	22	24	26	32	28	27	25	21
E-911	23	23	27	28	32	32	32	32	33	33
Fire										
Firefighters and officers	149	139	140	140	140	142	143	143	144	126
Civilians	1	1	1	1	1	1	1	1	1	1
EMS	30	31	32	32	32	29	31	32	41	32
Highways and Streets	69	59	58	58	58	53	48	46	46	86
Sanitation/Recycling	30	31	37	37	38	36	32	33	33	34
Building Maintenance	16	16	15	15	15	20	12	12	13	16
Building Standards & Safety	33	35	36	35	40	41	39	38	48	36
Culture and Recreation	43	41	41	37	39	34	25	22	24	50
Golf	4	4	6	6	6	5	5	6	6	6
Health	45	44	44	43	42	36	35	35	35	35
Water	86	86	87	93	93	89	84	85	84	0
Sewer	96	98	91	97	97	96	97	96	93	0
Total	995	962	975	947	971	942	910	910	946	786

Notes:

The data above are listed in the City's approved budget and reflect the restructuring due to the Water and Sewer Utility Concession and Lease Agreement.

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 18

Operating Indicators By Function
Last Ten Years

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Police										
Law violations	18,103	18,336	19,072	17,381	16,794	14,906	14,433	13,794	13,801	13,844
Traffic violations (2)	16,074	11,465	8,744	5,586	5,227	6,788	9,949	10,560	10,182	10,466
Fire										
Number of calls answered (3)	5,889	5,955	6,033	6,346	8,988	12,206	11,383	11,719	9,409	11,685
Inspections and investigations (5)	3,414	2,637	2,284	2,568	1,821	1,823	2,668	2,351	1,149	950
Highways and Streets										
Street reconstruction (miles)	0.7	0.0	0.1	0.15	0.29	0.13	0.02	0.00	0.10	0.28
Overlays (miles)	n/a	n/a	n/a	4.4	6.2	5.2	5.4	4.9	3.7	2.1
Potholes repaired	17,079	13,909	11,691	10,734	15,552	12,427	10,488	9,673	4,355	6,236
Sanitation										
Refuse collected (tons/year)	43,300	44,476	42,126	38,746	36,907	33,533	35,401	36,174	37,274	33,143
Recyclables collected (tons/year)	7,595	8,355	6,194	8,398	9,954	9,472	9,043	9,267	11,603	10,104
Sweep tickets issued (1)	n/a	786	3,604	4,957	5,203	6,047	6,891	6,854	7,514	6,997
Animal related complaints (4)	1,582	1,391	1,222	1,510	1,476	1,467	1,193	1,268	1,441	1,286
Health										
Home hazard surveys	363	360	243	241	319	300	439	311	274	277
Food service inspections	1,560	1,377	1,405	1,429	1,456	1,708	1,765	1,306	1,613	1,712
Number of home visits	2,720	2,412	2,228	1,658	906	384	303	428	478	593
Total lead screenings (6)	850	857	870	690	773	849	945	916	788	227
Persons tested & counseled for HIV infection	2,500	2,268	2,160	2,324	2,472	2,544	2,656	2,624	2,517	2,290
Recreation										
Pavilion permits	113	178	206	325	508	389	382	294	297	523
Swimming pool season passes	196	148	152	191	195	116	211	159	253	680
Swimming pool patrons (non season pass)	12,732	17,773	13,395	43,623	56,453	65,428	64,932	47,365	36,584	50,895
Water										
Water connection permits	25	51	25	57	20	16	17	47	8	3
Water main breaks	25	25	9	29	22	18	22	23	13	6
Average daily consumption (millions of gallons)	14.85	15.26	14.48	14.75	14.80	14.50	14.75	14.39	16.00	18.36
Wastewater										
Average daily sewage treatment (millions of gallons)	31.25	31.72	31.16	30.80	32.27	30.70	31.64	31.64	30.91	31.17
			136							

CITY OF ALLENTOWN, PENNSYLVANIA

TABLE 18

Operating Indicators By Function
Last Ten Years

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Golf										
Number of patrons	40,000	39,900	42,000	47,040	50,155	50,548	50,562	45,799	48,500	45,600
Number of days of service	310	320	225	273	305	299	293	285	310	285
E-911										
Number of calls:										
Police	116,435	107,219	105,196	107,135	103,600	112,841	112,639	127,315	119,686	120,355
EMS	12,073	12,932	12,929	13,485	13,985	13,512	13,843	14,628	14,528	13,998
Fire	5,913	5,969	6,048	6,353	8,955	12,210	11,393	11,753	9,409	11,685
Other	9,582	9,156	8,952	9,556	8,760	9,259	8,572	9,653	7,901	7,843

Source:
Various city departments.

Notes:

- (1) Sweep ticket program started in May 2005.
- (2) Starting in 2007, the Police Department starting using a new system. When a traffic violation is included on an arrest sheet, it is no longer listed as a traffic violation.
- (3) Starting in August 2008, the Fire Department starting providing EMS assistance.
- (4) Starting in 2009, Animal Related Complaints was moved from the Health Department to the Sanitation Department.
- (5) Prior to 2012, Inspections and Investigations included follow up visits.
- (6) The Lead Screening part of the program ended in June 2013. The focus has shifted to assessing the homes of children with lead poisoning.
- (7) Reflects activity up to August 7, 2013 - On August 7, 2013, the City of Allentown and Lehigh County Authority (LCA) entered into a 50-year concession lease agreement allowing LCA to operate, service and maintain the City water resource and waste water operations system.

CITY OF ALLENTOWN, PENNSYLVANIA

Capital Asset Statistics By Function
Last Ten Years

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public Safety										
Police:										
Stations	1	1	1	1	1	1	1	2	2	2
Police officers	220	172	190	187	197	203	199	197	209	200
Patrol units	92	86	83	87	84	84	87	90	108	114
Fire:										
Stations	6	6	6	6	6	6	6	6	6	6
Fire fighters	147	135	140	140	140	141	141	102	120	123
Sanitation										
Collection trucks	3	3	3	3	3	3	3	3	4	4
Highways and Streets										
Streets (miles)	427.5	427.5	427.5	427.5	427.5	427.5	427.5	427.5	427.5	427.5
Streetlights	7,762	7,761	7,766	7,829	7,835	7,990	7,995	8,097	8,097	8,106
Traffic signals	n/a	n/a	1,622	1,622	1,622	1,622	1,622	1,622	1,622	1,622
Recreation										
Parks acreage	2,020	2,020	2,022	2,022	2,022	2,022	2,022	2,022	2,022	2,022
Parks	28	28	29	32	32	32	32	32	32	32
Swimming pools	5	5	5	5	5	5	4	4	4	4
Playgrounds	9	11	11	16	19	19	19	19	19	19
Water										
Water mains (miles)	300.0	300.0	300.0	310.0	310.0	310.0	310.0	310.0	310.0	310.0
Fire hydrants	n/a	n/a	1,708	1,819	1,819	1,816	1,818	1,820	1,817	1,817
Maximum daily capacity (millions of gallons)	30.0	30.0	30.0	30.0	30.0	30.0	30	30	35	35
Sewer										
Sanitary sewers (miles)	293.0	293.0	293.0	283.0	283.0	283.0	283	283	283	283
Storm sewers (miles)	185.0	185.0	185.0	165.0	165.0	165.0	165.0	165	165	165
Maximum daily treatment capacity (millions of gallons)	40.0	40.0	40.0	40.0	40.0	40.0	40	40	40	40
Golf										
Number of courses	1	1	1	1	1	1	1	1	1	1

Source:
Various city departments.

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**CITY OF ALLENTOWN
FINANCIAL MANAGEMENT POLICIES**

OPERATING MANAGEMENT

- General Fund revenues are sensitive to local and regional economic activity. Accordingly, revenue estimates prepared by the Administration and adopted by City Council should be conservative.
- The annual budget should continue to show fiscal restraint. An integral part of this restraint is the creation of a positive cash balance (surplus) in the General Fund at the end of the fiscal year. If necessary, spending during the fiscal year should be reduced sufficiently to create such a cash surplus.
- The annual budget should continue to be prepared, adopted and maintained in such a manner as to avoid the following situations:
 - 1) Two consecutive years of operating fund deficits.
 - 2) A current operating fund deficit greater than the previous year.
 - 3) An operating fund deficit in two or more of the last five years.
 - 4) An abnormally large deficit in any one year of more than 5 to 10 percent of net operating revenues.
- The City liquidity position (the extent to which cash and other assets are available to pay short-term obligations) should show a working capital surplus; i.e., cash and short-term investments should exceed current liabilities.
- When deficits appear to be forthcoming, the City should avoid the use of "fiscal mirrors" in order to balance the budget. Only three alternatives are available: reduce appropriations, increase revenues, or a combination of the two techniques.
- The City will pursue a prudent cash management and investment program in order to meet daily cash requirements. Investment program guidelines will follow this order of priority: preservation of principal; maintain and meet liquidity as needed; and within the parameters of these first two guidelines, investment growth.
- 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").

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.

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