

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council City of Allentown, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Allentown as of and for the year ended December 31, 2008, which collectively comprise the City of Allentown's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Allentown's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Allentown Economic Development Corporation and the Allentown Parking Authority as of and for the years ended June 30, 2008 and December 31, 2008, respectively, which represent 97%, 95% and 83%, respectively, of the assets, net assets and revenues of the discretely presented component units column. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and, except for the Allentown Parking Authority, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report 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 of Allentown as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



The City of Allentown adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, and Statement No. 50, *Pension Disclosures*, during 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2009 on our consideration of the City of Allentown's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information, such as Management's Discussion and Analysis ("MD&A"), budgetary comparison information and pension information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Allentown's basic financial statements. The combining statements and schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Reinsel Kuntz Lesher LLP

Wyomissing, Pennsylvania
June 26, 2009

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

INTRODUCTION

This Management Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the City of Allentown (the City) for the year ended December 31, 2008. 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, 2008. Additional information is provided in the Transmittal Letter preceding this Management Discussion and Analysis which can be found on pages 1-3 of this report. This discussion focuses on the City's primary government. Component units, unless otherwise noted, are not included in this discussion.

FINANCIAL HIGHLIGHTS

During 2008, the City's total net assets decreased by \$4,735,914. Net assets of governmental activities decreased \$8,738,025 and net assets of business-type activities increased \$4,002,111. The decrease in the governmental net assets was due to the decline of revenues such as Deed Transfer and Local Services Tax collections.

Property tax rates remained at 17.52 mills in 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of four parts:

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

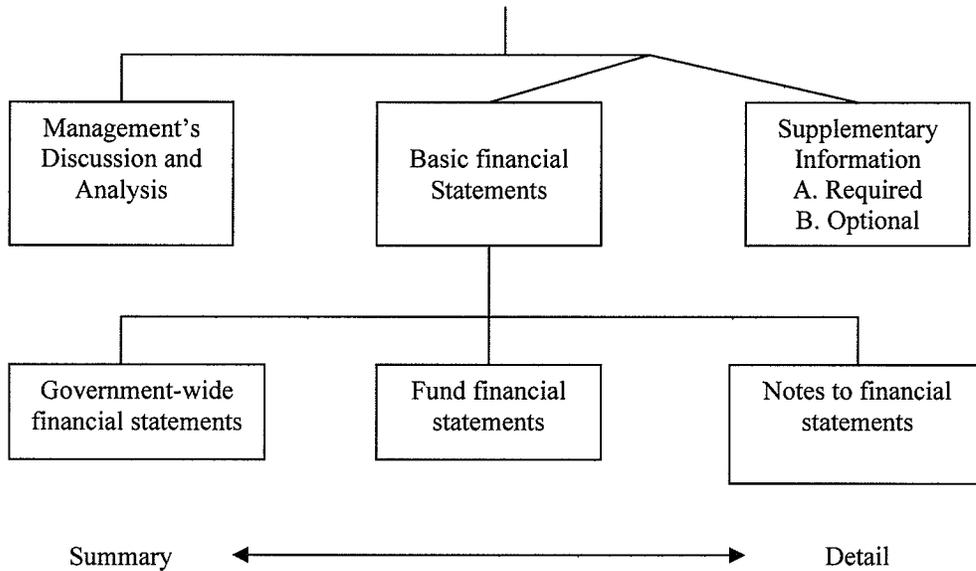
Management's discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand the City government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial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

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

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

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

REQUIRED COMPONENTS OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT



City of Allentown, Pennsylvania
Management Discussion and Analysis

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

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

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

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

Government-wide financial statements

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

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

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

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

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

There are two categories of activities for the primary government.

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

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

expended to purchase or build assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. Principal and interest payments are both considered expenditures when paid. Depreciation is not calculated as it does not provide or reduce current financial resources. Finally, capital assets and long-term debt do not affect fund balances.

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

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

Fund financial statements

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

The City has three kinds of funds:

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

measurement focus. Consequently, the governmental funds statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the City's programs.

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Net Assets

The City of Allentown's total assets were \$230.9 million at December 31, 2008. Of this amount, \$175.9 million was capital assets, including infrastructure and construction in progress. Prior to the adoption of GASB No. 34 in 2003, infrastructure (roads, bridges, etc.) had not been reported or depreciated in governmental financial statements.

GASB No. 34 required that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements, but allowed infrastructure to be added over several years. The City believes it has included all infrastructure in the 2008 financial statements.

City of Allentown, Pennsylvania
Management Discussion and Analysis

Table A-3: Condensed statement of net assets

	Governmental Activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other Assets	\$ 26,865,877	\$ 33,955,977	\$ 17,865,652	\$ 16,039,014	\$ 44,731,529	\$ 49,994,991
Capital assets, net	83,736,123	81,393,489	92,198,205	93,940,918	175,934,328	175,334,407
Other non-current Assets	8,238,247	9,325,268	2,031,727	2,036,047	10,269,974	11,361,315
Total assets	\$118,840,247	\$124,674,734	\$112,095,584	\$112,015,979	\$230,935,831	\$236,690,713
Current and other Liabilities	\$ 15,770,468	\$ 12,040,949	\$ 6,940,615	\$ 7,015,793	\$ 22,711,083	\$ 19,056,742
Long-term liabilities	94,248,376	95,074,357	27,712,047	31,559,375	121,960,423	126,633,732
Total liabilities	\$110,018,844	\$107,115,306	\$ 34,652,662	\$ 38,575,168	\$144,671,506	\$145,690,474
Net assets:						
Invested in capital assets, net of debt	\$ 20,127,498	\$ 17,098,445	\$ 60,620,384	\$ 58,612,743	\$ 80,747,882	\$ 75,711,188
Restricted net assets	9,304,474	7,502,310			9,304,474	7,502,310
Unrestricted net (deficit) assets	(20,610,569)	(7,041,327)	16,822,538	14,828,068	(3,788,031)	7,786,741
Total net (deficit) assets	\$ 8,821,403	\$ 17,559,428	\$ 77,442,922	\$ 73,440,811	\$86,264,325	\$91,000,239

During 2008 net assets decreased \$4.7 million or 5% to \$86.2 million. Of this amount, \$80.7 million represents the net balance of long-term capital assets and long-term debt, while \$9.3 million is restricted for various purposes.

City of Allentown, Pennsylvania
Management Discussion and Analysis

Table A-4: Changes in net assets

The following statement of activities represents changes in net assets for the year ended December 31, 2008. 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	
	2008	2007	2008	2007	2008	2007
Program revenues:						
Charges for services	\$ 16,146,186	\$ 14,646,687	\$ 44,026,365	\$ 41,708,564	\$ 60,172,551	\$ 56,355,251
Operating grants and contributions	17,197,783	10,645,301	823,762	948,666	18,021,545	11,593,967
Capital grants	3,180,479	1,400,090			3,180,479	1,400,090
General revenues:						
Taxes	47,186,003	52,579,329			47,186,003	52,579,329
Investment earnings	762,789	1,490,757	398,954	558,291	1,161,743	2,049,048
Unrestricted grants	1,313,230	6,028,421			1,313,230	6,028,421
Total revenues	85,786,470	86,790,585	45,249,081	43,215,521	131,035,551	130,006,106
Expenses:						
General government	14,193,579	8,496,511			14,193,579	8,496,511
Public safety	50,050,802	44,659,264			50,050,802	44,659,264
Community development	12,548,838	9,508,856			12,548,838	9,508,856
Public works	11,874,900	11,262,288			11,874,900	11,262,288
Health and sanitation	3,045,226	3,283,888			3,045,226	3,283,888
Parks and recreation	3,603,363	3,527,522			3,603,363	3,527,522
Interest long-term debt	3,577,271	4,373,290			3,577,271	4,373,290
Water fund			10,663,179	10,846,997	10,663,179	10,846,997
Sewer fund			12,607,533	13,047,950	12,607,533	13,047,950
Municipal golf course			1,078,094	1,057,970	1,078,094	1,057,970
Solid waste fund			12,528,680	11,565,750	12,528,680	11,565,750
Total expenses	98,893,979	85,111,619	36,877,486	36,518,667	135,771,465	121,630,286
Change in net assets Before transfers	(13,107,509)	1,678,966	8,371,595	6,696,854	(4,735,914)	8,375,820
Transfers	4,369,484	7,389,315	(4,369,484)	(7,389,315)		
Change in net assets	(8,738,025)	9,068,281	4,002,111	(692,461)	(4,735,914)	8,375,820
Net assets beginning	17,559,428	8,491,147	73,440,811	74,133,272	91,000,239	82,624,419
Net assets ending	\$ 8,821,403	\$ 17,559,428	\$ 77,442,922	\$ 73,440,811	\$86,264,325	\$91,000,239

Total government-wide revenues of \$131 million came primarily from charges for services of \$60.2 million, representing 46 percent of the total. Taxes at \$47.2 million made up the second largest source at 36 percent, followed by operating and capital grants, and contributions of \$21.2 million, or 17 percent, and other revenue sources made up the remaining 1 percent.

City of Allentown, Pennsylvania
 Management Discussion and Analysis

Total expenses for all programs in 2008 were \$135.7 million. The expenses cover a range of services, with the largest being public safety at \$50 million or 36.9 percent. The second largest program area was the sewer fund at \$12.6 million or 9.3 percent, followed by solid waste at \$12.5 million or 9.3 percent, the public works at \$11.8 million or 8.8 percent, water fund at \$10.6 million or 7.9 percent, community development at 12.5 million or 9.3 percent, general government at \$14.1 million or 10.5 percent, parks and recreation at \$3.6 million or 2.7 percent, health and sanitation at \$3.0 million or 2.3 percent, and the golf course at \$1.1 million or 0.08 percent. Interest on outstanding debt came to \$3.6 million or 2.7 percent, and other services made up the remaining 0.22 percent.

Net cost of services

Net cost of services expenses indicate the amount of support required from taxes and other general revenues for a program of the government. In 2008, real estate and Act 511 taxes brought in \$47.1 million. There were \$2.1 million in other general revenues and \$4 million of general fund service charges received. Table A-5 depicts the net program expenses for the years ended December 31 2008 and 2007.

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

Program:	Total cost of services		Net cost of services	
	2008	2007	2008	2007
General government	\$14,193,579	\$ 8,496,511	\$8,404,809	\$5,262,240
Public safety	50,050,802	44,659,264	41,896,266	37,076,411
Community development	12,548,838	9,508,856	186,368	3,761,609
Public works	11,874,900	11,262,288	7,490,152	5,494,640
Health and sanitation	3,045,226	3,283,888	761,859	569,322
Parks and recreation	3,603,363	3,527,522	52,806	1,882,029
Interest on long-term debt	3,577,271	4,373,290	3,577,271	4,373,290
Water fund	10,663,179	10,846,997	(3,523,457)	(3,363,901)
Sewer fund	12,607,533	13,047,950	(2,530,525)	(1,754,604)
Municipal golf course	1,078,094	1,057,970	(204,195)	(191,988)
Solid waste fund	12,528,680	11,565,750	(1,714,464)	(828,070)
Total expenses	\$135,771,465	\$121,630,286	\$ 54,396,890	\$ 52,280,978

The City relied on real estate tax, Act 511 taxes and other general revenues to fund 36.3% of its governmental and business-type activities in 2008.

Property taxes and other general revenues covered 59.2 percent of general government spending with the remainder coming from grants and fees for specific services. Nearly 83.7 percent of public safety spending came from the property tax and other general revenues with the remainder coming from grants, fines, and court costs. Property taxes covered 1.5 percent of community development costs, with the remainder coming from fees, charges for service, and \$6.9 million from Community Development Block Grant (CDBG) funding.

City of Allentown, Pennsylvania
Management Discussion and Analysis

Public works spending was partially funded through Commonwealth fuel tax revenues, with 63.1 percent coming from local property taxes and other general revenues. Health and sanitation received all but 25 percent of its revenue from program revenues, 92.2 percent of which was in the form of grants. Property taxes and other general revenues covered 1.5 percent of parks and recreation expenses.

Operations of the water fund and the sewer fund are entirely funded through charges for services, with excess revenues covering debt service costs. The municipal golf course is almost entirely reliant on fees for services. Solid waste fund expenses were funded at 100 percent through fees for service.

Capital Assets

The City's investment in capital assets at December 31, 2008, net of accumulated depreciation, was \$175.9 million. Capital assets consist primarily of land, buildings, equipment, and infrastructure. Table A-6 is a summary of capital assets at December 31, 2008 and 2007.

Table A-6: Capital assets at December 31, 2008 and 2007

	Governmental Activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Land and land improvements	\$ 9,119,896	\$ 9,115,376	\$ 3,759,049	\$ 3,759,048	\$ 12,878,945	\$ 12,874,424
Buildings and improvements	31,375,927	29,717,731	36,752,893	38,165,480	68,128,820	67,883,211
Vehicles, machinery and equipment	7,523,418	5,856,309	13,179,211	13,807,305	20,702,629	19,663,614
Distribution and collection systems			38,507,052	38,209,085	38,507,052	38,209,085
Infrastructure	35,716,882	36,704,073			35,716,882	36,704,073
Total	\$ 83,736,123	\$ 81,393,489	\$ 92,198,205	\$ 93,940,918	\$175,934,328	\$175,334,407

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

Debt Administration

Long-term debt:

At December 31, 2008, the City had \$126.5 million of debt outstanding, including bonds, notes, and capital leases. This was a decrease of \$5.1 million from the previous year. Table A-7 provides a summary of outstanding debt.

City of Allentown, Pennsylvania
Management Discussion and Analysis

Table A-7: Summary of outstanding debt

	Governmental Activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Capital lease	\$ 1,907,720	\$ 838,471	\$ 1,140,421	\$ 1,725,575	\$ 3,048,141	\$ 2,564,046
Bonds and notes	61,700,905	63,456,573	30,437,400	33,602,600	92,138,305	97,059,173
Pension obligation bonds	31,325,000	32,020,000			31,325,000	32,020,000
Total	\$94,933,625	\$96,315,044	\$31,577,821	\$35,328,175	\$126,511,446	\$131,643,219

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, 2008 was approximately \$197.3 million, and the total debt outstanding was \$61.7 million, which is below the legal debt limit. The City's net non-electoral and lease rental debt limit at December 31, 2008 was approximately \$257.9 million and the total debt outstanding was \$30.4 million. For computation purposes, these amounts have been reduced by \$31.3 million which is the outstanding balance of the 2004 GO bond issue used to finance the City's pension funding liability as allowed by statute.

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

Bond rating

In May 2008 Standard & Poor's rating group indicated a positive outlook to the city's bond rating. This is the second outlook boost for the city in the last nine months.

GOVERNMENTAL FUNDS

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

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

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

Governmental fund revenues

Governmental fund revenues by source for the years ended December 31, 2008 and December 31, 2007 were as follows. Table A-8 also presents changes from 2007 to 2008.

City of Allentown, Pennsylvania
Management Discussion and Analysis

Table A-8: Revenues by source, governmental funds

	2008	2007	Changes from 2007 to 2008	Percent change
Revenues:				
Taxes	\$47,039,202	\$51,368,491	(\$4,329,289)	(9.2)
Licenses and permits	3,459,268	3,477,297	(18,029)	(.6)
Charges for services	5,864,796	6,613,544	(748,748)	(12.8)
Fines and forfeits	592,504	580,737	11,767	2.0
Investment earnings	758,833	1,471,916	(713,083)	(94.0)
Intergovernmental revenues	24,407,606	17,152,512	7,255,094	29.8
Other	3,664,260	4,177,786	(513,526)	(14.1)
Total revenues	\$85,786,469	\$84,842,283	\$944,186	1.1

Governmental fund revenues totaled \$85.8 million for the year ended December 31, 2008. This is an increase of \$950 thousand from 2007, primarily due to increases in taxes and charges for services.

Governmental fund expenditures

Governmental fund expenditures by function for the years ended December 31, 2008 and December 31, 2007 were as follows. Table A-9 also presents changes from 2007 to 2008.

Table A-9: Expenditures by function, governmental funds

	2008	2007	Changes from 2007 to 2008	Percent change
Expenses:				
General government	\$ 7,962,093	\$ 7,806,908	\$ 155,185	2.0
Public safety	47,424,025	43,639,004	3,785,021	8.0
Community development	12,482,112	9,442,326	3,039,786	24.4
Public works	9,985,082	9,339,687	645,395	6.5
Health and sanitation	3,005,201	3,240,066	(234,865)	(7.90)
Parks and recreation	3,107,688	2,925,564	182,124	5.9
Debt service:				
Principal	2,633,800	3,618,900	(985,100)	(37.4)
Interest	3,790,899	4,395,128	(604,229)	(16.0)
Capital outlay	10,351,660	4,595,871	4,172,849	47.6
Payment of bond/loan issue cost	-	1,379,020	(1,379,020)	(100.0)
Total expenses	\$ 101,003,869	\$ 90,382,474	\$ 8,777,146	8.9

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, the capital projects fund, the CDBG (community development block grant) fund, the Trexler fund, the debt service fund, the 911 Fund, Bedi Grant and the Pennsylvania motor fund, all of which are considered to be major funds.

City of Allentown, Pennsylvania
 Management Discussion and Analysis

Governmental fund expenditures totaled \$101 million for the year ended December 31, 2008, an increase of 8.9 percent from 2007.

The \$3.8 million increase in public safety reflects a continuing emphasis on community policing and the necessity to respond to demands for service.

Governmental fund balances

Table A-10 reflects ending balances for governmental funds and net assets for proprietary funds at December 31, 2008 and 2007.

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

	2008		2007	
	Governmental funds	Proprietary funds	Governmental funds	Proprietary funds
General	\$ 8,205,189		\$ 14,137,580	
Pennsylvania Motor Fund	983,182		804,927	
Community Development				
Block Grant	8,321,292		7,166,576	
Trexler	(749,275)		(318,902)	
Capital Projects	1,433,265		5,201,007	
E-911	(306,625)		(146,493)	
Water fund		\$ 44,440,868		\$ 42,695,136
Sewer fund		23,804,292		22,878,483
Municipal golf course		3,220,302		3,229,737
Solid waste fund		5,977,460		4,637,455
Total	\$17,887,028	\$77,442,922	\$26,844,695	\$73,440,811

The City's governmental funds reported a combined fund balance of \$17.9 million at December 31, 2008. Of the total, \$8.3 million is restricted for CDBG projects, \$1.4 million is restricted for capital projects, and the general fund shows a surplus of \$8.2 million,

The general fund balance decreased by \$5.9 million. The general fund is the chief operating fund of the City. At December 31, 2008 the total general fund balance was \$8.2 million.

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

The General Fund change in fund balance is attributed to the decrease in revenue of the local services tax and a decrease in investment earnings. The proprietary fund activity change of \$4 million is due to an increase in refuse and recycling collections in the Solid Waste fund.

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

Budgetary highlights

The Allentown City Council may revise the budget through transfers or ordinance. There are two kinds of revisions:

- Allocations made to specific line items from other line items (internal transfers) or from contingency funds established in the budget
- New appropriations are budgeted when received, and the anticipated related expense is budgeted at the same time

Because the City is on a different fiscal year than the Commonwealth and the federal government, it is difficult to know what grants will be forthcoming in the City's fiscal year. Some revenue variances are due to budgeting for grants not received. Other revenue variances are based on grants received but not anticipated.

The general fund budget for revenues increased \$2 million during the year from the original budget of \$75.7 million to the final budget of \$77.7 million. Actual revenues were \$6.7 million below the final budget. This variance was partly due to the \$3.8 million decrease in total taxes collected. In addition, Intergovernmental revenues were \$1.7 million lower than estimated due to the timing of receipts.

The general fund budget for expenditures increased \$6 million during the year from the original budget of \$70.1 million to the final budget of \$76.1 million. Actual expenditures were \$3.8 million lower than the amended budget because of careful attention to expenditures in all areas.

Some large variances between general fund budgeted amounts and actual amounts on individual lines are due to the differences between budget methodology and accounting methodology.

ECONOMIC CONDITION AND OUTLOOK

As the Commonwealth of Pennsylvania's third largest city, Allentown is strategically located within a 300 mile radius of the larger metropolitan areas on the eastern seaboard of the United States. Excellent transportation systems and close proximity to both New York and Philadelphia make Allentown attractive to businesses and families desirous of locating in an area that offers clean air, good water, and rolling, wooded topography.

Allentown's former historical reliance on heavy industry as a major employer has just about disappeared and local employment trends demonstrate that there has been a definite shift in the Lehigh Valley's labor market over the last 10-to-15 years. A majority of workers are in office settings; employed in managerial, professional and technical positions. Skill requirements are rising in most industries and occupations, not just in the high-tech sector.

In 2008, Allentown, like every other municipality, began to feel the impact of the global recession. Still, substantial progress was made. St. Luke's Hospital completed its \$75

million expansion project in the city. Coca-Cola Park, a Class AAA minor league baseball stadium, opened on the city's East Side. The America on Wheels transportation museum opened along the city's waterfront. The downtown arts district continued to be a focus of successful revitalization

Fiscally, city expenses continue to increase at rates above the Consumer Price Index, primarily as a result of previously negotiated or arbitrator-mandated multi-year labor contracts, increasing health care insurance costs, pension contribution costs, and debt service payments. Revenue initiatives and cost control measures are being implemented to counter this squeeze.

Both Standard & Poor's (S&P) and Moody's Investor Services (Moody's), two of the financial and investment community's most respected and influential rating agencies, announced significant positive changes in their outlook of how they viewed the city's fiscal condition in 2008. It marked the second consecutive year that the agencies outlook on the city improved.

Government, public utilities, education and health services provide the base for the job market in the city. Allentown has also experienced an increase in financial services employment; banks, insurance, financial planning and similar services. This sector of the economy epitomizes the service industry with its orientation towards office use and paper and data handling, an area which has shown considerable growth in this decade. The city and Lehigh County continue to seek ways to attract new businesses to the area. New business stimulates the economy by providing jobs and other economic benefits derived from productive employment.

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

REQUESTS FOR INFORMATION

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

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CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
CURRENT ASSETS:				
Cash and cash equivalents	\$ 21,537,560	\$ 10,240,146	\$ 31,777,706	\$ 6,714,672
Receivables (net of allowance for uncollectibles):				
Taxes	791,893	-	791,893	-
Loans	-	-	-	654,176
Accounts	148,224	8,199,396	8,347,620	-
Grants	3,814,310	-	3,814,310	-
Other current assets	-	-	-	341,742
Internal balances	573,890	(573,890)	-	-
Total current assets	26,865,877	17,865,652	44,731,529	7,710,590
NONCURRENT ASSETS:				
Capital assets, net:				
Land	8,409,945	3,759,049	12,168,994	9,030,842
Property held for development	709,951	-	709,951	1,569,163
Buildings	7,197,894	19,469,648	26,667,542	20,890,810
Land and building improvements	10,023,126	15,973,235	25,996,361	39,759,480
Machinery and equipment	4,405,539	11,513,388	15,918,927	84,979
Vehicles	3,117,879	1,665,823	4,783,702	1,395,049
Distribution and collection systems	-	38,507,052	38,507,052	-
Construction in progress	14,154,907	1,310,010	15,464,917	22,500
Infrastructure	35,716,882	-	35,716,882	-
Total capital assets, net	83,736,123	92,198,205	175,934,328	72,752,823
Cash and cash equivalents, restricted	-	-	-	149
Net pension asset	798,515	-	798,515	-
Loans receivable	5,131,655	-	5,131,655	-
Other assets	2,308,077	2,031,727	4,339,804	1,351,232
Total noncurrent assets	91,974,370	94,229,932	186,204,302	74,104,204
TOTAL ASSETS	\$ 118,840,247	\$ 112,095,584	\$ 230,935,831	\$ 81,814,794
CURRENT LIABILITIES:				
Accounts payable and other current liabilities	\$ 4,553,536	\$ 1,605,676	\$ 6,159,212	\$ 647,981
Wages payable	1,860,082	388,111	2,248,193	-
Accrued interest payable	923,977	340,431	1,264,408	-
Claims liability	2,244,630	-	2,244,630	-
Other liabilities	916,781	77,446	994,227	447,805
Due to other governments	66,074	-	66,074	-
Accrued vacation	1,458,863	504,015	1,962,878	-
Unearned revenue	714,515	-	714,515	-
Capital leases payable	456,410	474,736	931,146	-
Line of credit	-	-	-	340,853
Notes and bonds payable	2,575,600	3,550,200	6,125,800	1,309,114
Total current liabilities	15,770,468	6,940,615	22,711,083	2,745,753
NONCURRENT LIABILITIES:				
Capital leases payable	1,451,310	665,685	2,116,995	-
Accrued vacation	300,482	159,162	459,644	-
Unearned revenue	-	-	-	11,113,122
Other post-employment benefit liability	2,046,279	-	2,046,279	25,097
Notes and bonds payable	90,450,305	26,887,200	117,337,505	26,011,581
Total noncurrent liabilities	94,248,376	27,712,047	121,960,423	37,149,800
TOTAL LIABILITIES	110,018,844	34,652,662	144,671,506	39,895,553
NET ASSETS :				
Invested in capital assets, net of related debt	20,127,498	60,620,384	80,747,882	44,834,016
Restricted for roads	983,182	-	983,182	-
Restricted for CD Block Grants	8,321,292	-	8,321,292	-
Unrestricted(deficit)	(20,610,569)	16,822,538	(3,788,031)	(2,914,775)
Total net assets :	8,821,403	77,442,922	86,264,325	41,919,241
TOTAL LIABILITIES AND NET ASSETS	\$ 118,840,247	\$ 112,095,584	\$ 230,935,831	\$ 81,814,794

See Notes to Financial Statements

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Primary government:				
Governmental activities:				
General government	\$ 14,193,579	\$ 5,664,480	\$ 124,290	\$ -
Public safety	50,050,802	6,602,040	1,552,496	-
Community development	12,548,838	1,949,934	9,912,536	500,000
Public works	11,874,900	1,418,930	2,063,770	902,048
Health and sanitation	3,045,226	177,924	2,105,443	-
Parks and recreation	3,603,363	332,878	1,439,248	1,778,431
Interest on long-term debt	<u>3,577,271</u>	-	-	-
Total governmental activities	98,893,979	16,146,186	17,197,783	3,180,479
Business-type activities:				
Water fund	10,663,179	14,122,453	64,183	-
Sewer fund	12,607,533	15,035,859	102,199	-
Municipal golf course	1,078,094	1,278,723	3,566	-
Solid waste fund	<u>12,528,680</u>	<u>13,589,330</u>	<u>653,814</u>	-
Total business-type activities	<u>36,877,486</u>	<u>44,026,365</u>	<u>823,762</u>	-
Total primary government	<u>\$135,771,465</u>	<u>\$ 60,172,551</u>	<u>\$ 18,021,545</u>	<u>\$ 3,180,479</u>
COMPONENT UNITS				
Allentown Redevelopment Authority	\$ 1,476,425	\$ 1,505,924	\$ 1,147,634	-
Allentown Economic Development Corporation	3,020,515	1,062,643	5,114,693	-
Allentown Parking Authority	<u>5,435,857</u>	<u>6,244,252</u>	<u>19,887</u>	-
Total component units	<u>\$ 9,932,797</u>	<u>\$ 8,812,819</u>	<u>\$ 6,282,214</u>	<u>\$ -</u>
General Revenues:				
Property taxes				
Act 511				
Utility Realty				
Deed Transfer Tax				
Grants and charges not restricted to specific programs				
Investment earnings				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

See Notes to Financial Statements

Statement consists of both facing pages

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (8,404,809)		\$ (8,404,809)	
(41,896,266)		(41,896,266)	
(186,368)		(186,368)	
(7,490,152)		(7,490,152)	
(761,859)		(761,859)	
(52,806)		(52,806)	
<u>(3,577,271)</u>		<u>(3,577,271)</u>	
(62,369,531)		(62,369,531)	
-	\$ 3,523,457	3,523,457	
-	2,530,525	2,530,525	
-	204,195	204,195	
-	<u>1,714,464</u>	<u>1,714,464</u>	
<u>(62,369,531)</u>	<u>7,972,641</u>	<u>(54,396,890)</u>	
			\$ 1,177,133
			3,156,821
			<u>828,282</u>
			<u>\$ 5,162,236</u>
29,525,118	-	29,525,118	-
16,354,317	-	16,354,317	-
68,555	-	68,555	-
1,238,013	-	1,238,013	-
1,313,230	-	1,313,230	-
762,789	398,954	1,161,743	241,410
<u>4,369,484</u>	<u>(4,369,484)</u>	<u>-</u>	<u>-</u>
<u>53,631,506</u>	<u>(3,970,530)</u>	<u>49,660,976</u>	<u>241,410</u>
(8,738,025)	4,002,111	(4,735,914)	5,403,646
<u>17,559,428</u>	<u>73,440,811</u>	<u>91,000,239</u>	<u>36,515,595</u>
<u>\$ 8,821,403</u>	<u>\$ 77,442,922</u>	<u>\$ 86,264,325</u>	<u>\$ 41,919,241</u>

CITY OF ALLENTOWN, PENNSYLVANIA

BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General	Pennsylvania Motor
<u>ASSETS</u>		
Cash and cash equivalents	\$ 10,084,250	\$ 1,124,383
Receivables:		
Taxes	791,893	-
Loans	-	-
Accounts	-	-
Grants	647,493	-
Due from other funds	<u>1,045,839</u>	<u>-</u>
TOTAL	<u>\$ 12,569,475</u>	<u>\$ 1,124,383</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>		
LIABILITIES		
Accounts payable	1,139,540	99,660
Accrued wages payable	1,763,761	41,541
Due to other funds	-	-
Due to other governments	4,084	-
Deferred revenues	695,856	-
Other liabilities	<u>761,045</u>	<u>-</u>
Total liabilities	<u>4,364,286</u>	<u>141,201</u>
FUND BALANCES:		
Reserved for encumbrances	840,183	-
Reserved for specific fund balances	-	983,182
Unreserved (deficits), undesignated	<u>7,365,006</u>	<u>-</u>
Total fund balances (deficits)	<u>8,205,189</u>	<u>983,182</u>
TOTAL	<u>\$ 12,569,475</u>	<u>\$ 1,124,383</u>

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

- Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds
- Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds
- Accrued interest payable included on the statement of net assets
- Net pension asset included on the statement of net assets
- Assets and liabilities of the internal service fund reported in the statement of net assets are used to charge the cost of insurance to individual funds and are not reported in the funds
- Debt issuance costs are deferred and amortized on the statement of net assets
- Other post-employment benefits liability included on the statement of net assets
- Long-term liabilities, including bonds payable, (net of issuance cost and premium) are not due and payable in the current period and therefore are not reported in the funds

Net assets of governmental activities

See Notes to Financial Statements
Statement consists of both facing pages

Community Development Block Grant	Capital Projects	Trexler	E-911	Bedi Grant	Total Governmental Funds
\$ 3,601,737	\$ 607,871	\$ -	\$ 400,798	\$ -	\$ 15,819,039
-	-	-	-	-	791,893
5,131,655	-	-	-	-	5,131,655
-	148,224	-	-	-	148,224
452,302	-	714,515	-	2,000,000	3,814,310
<u>-</u>	<u>3,078,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,124,439</u>
<u>\$ 9,185,694</u>	<u>\$ 3,834,695</u>	<u>\$ 714,515</u>	<u>\$ 400,798</u>	<u>\$ 2,000,000</u>	<u>\$ 29,829,560</u>
317,972	571,894	11,686	3,520	2,000,000	4,144,272
5,204	-	34,417	9,562	-	1,854,485
326,900	1,826,136	703,172	694,341	-	3,550,549
61,990	-	-	-	-	66,074
-	-	714,515	-	-	1,410,371
<u>152,336</u>	<u>3,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>916,781</u>
<u>864,402</u>	<u>2,401,430</u>	<u>1,463,790</u>	<u>707,423</u>	<u>2,000,000</u>	<u>11,942,532</u>
-	1,433,265	2,650	3,327	-	2,279,425
8,321,292	-	-	-	-	9,304,474
<u>-</u>	<u>-</u>	<u>(751,925)</u>	<u>(309,952)</u>	<u>-</u>	<u>6,303,129</u>
<u>8,321,292</u>	<u>1,433,265</u>	<u>(749,275)</u>	<u>(306,625)</u>	<u>-</u>	<u>17,887,028</u>
<u>\$ 9,185,694</u>	<u>\$ 3,834,695</u>	<u>\$ 714,515</u>	<u>\$ 400,798</u>	<u>\$ 2,000,000</u>	
					83,736,123
					695,856
					(923,977)
					798,515
					3,059,030
					2,308,077
					(2,046,279)
					<u>(96,692,970)</u>
					<u>\$ 8,821,403</u>

CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General	Pennsylvania Motor	Community Development Block Grant
REVENUES:			
Taxes	\$ 47,039,202	\$ -	\$ -
Licenses and permits	3,459,268	-	-
Charges for services	5,612,324	-	-
Fines and forfeits	592,504	-	-
Investment earnings	680,936	41,864	-
Intergovernmental revenues	8,872,425	2,078,034	6,861,743
Other	1,644,718	59,221	64,045
Total revenues	<u>67,901,377</u>	<u>2,179,119</u>	<u>6,925,788</u>
EXPENDITURES:			
Current:			
General government	7,926,339	-	-
Public safety	44,785,469	-	-
Community development	5,128,557	-	5,353,555
Public works	7,984,218	2,000,864	-
Health and sanitation	3,005,201	-	-
Parks and recreation	1,615,067	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Payment of Debt Issuance Costs	261,309	-	-
Capital outlay	2,754,311	-	-
Total expenditures	<u>73,460,471</u>	<u>2,000,864</u>	<u>5,353,555</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,559,094)</u>	<u>178,255</u>	<u>1,572,233</u>
OTHER FINANCING SOURCES (USES):			
Issuance of Long Term Debt	6,665,000	-	-
Payment to refunded bonds escrow agent	(6,410,000)	-	-
Bond Discount	6,309	-	-
Capital Lease Obligations	1,582,940	-	-
Transfers in	4,547,844	-	-
Transfers out	(6,765,390)	-	(417,517)
Total other financing sources and uses	<u>(373,297)</u>	<u>-</u>	<u>(417,517)</u>
NET CHANGE IN FUND BALANCES	<u>(5,932,391)</u>	<u>178,255</u>	<u>1,154,716</u>
FUND BALANCE (DEFICIT), BEGINNING	<u>14,137,580</u>	<u>804,927</u>	<u>7,166,576</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 8,205,189</u>	<u>\$ 983,182</u>	<u>\$ 8,321,292</u>

See Notes to Financial Statements

Statement consists of both facing pages

Debt Service	Capital Projects	Trexler	E-911	Bedi Grant	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,039,202
-	-	-	-	-	3,459,268
-	252,472	-	-	-	5,864,796
-	-	-	-	-	592,504
-	-	-	36,033	-	758,833
-	3,180,479	1,414,925	-	2,000,000	24,407,606
-	21,656	22,323	1,852,297	-	3,664,260
-	3,454,607	1,437,248	1,888,330	2,000,000	85,786,469
35,754	-	-	-	-	7,962,093
-	-	-	2,638,556	-	47,424,025
-	-	-	-	2,000,000	12,482,112
-	-	-	-	-	9,985,082
-	-	-	-	-	3,005,201
-	-	1,492,621	-	-	3,107,688
2,633,800	-	-	-	-	2,633,800
3,790,899	-	-	-	-	3,790,899
-	-	-	-	-	261,309
-	7,597,349	-	-	-	10,351,660
6,460,453	7,597,349	1,492,621	2,638,556	2,000,000	101,003,869
(6,460,453)	(4,142,742)	(55,373)	(750,226)	-	(15,217,400)
-	-	-	-	-	6,665,000
-	-	-	-	-	(6,410,000)
-	-	-	-	-	6,309
-	-	-	-	-	1,582,940
6,460,453	375,000	-	662,837	-	12,046,134
-	-	(375,000)	(72,743)	-	(7,630,650)
6,460,453	375,000	(375,000)	590,094	-	6,259,733
-	(3,767,742)	(430,373)	(160,132)	-	(8,957,667)
-	5,201,007	(318,902)	(146,493)	-	26,844,695
\$ -	\$ 1,433,265	\$ (749,275)	\$ (306,625)	\$ -	\$ 17,887,028

CITY OF ALLENTOWN, PENNSYLVANIA

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

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

Net change in fund balances - total governmental funds	\$ (8,957,667)
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.	6,381,234
Depreciation expense on capital assets is reported in the statement of activities but they do not require the use of current financial resources; therefore depreciation expense is not reported as expenditures in governmental funds.	(3,991,966)
The net effect of various transactions involving capital assets (i.e. disposals and contributions) is to decrease net assets.	(1,115,881)
Revenues related to real estate taxes and deferred revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(331,364)
Vacation expenses reported in the statement of activities that do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(77,292)
Activities of the internal service fund are reported as net expense in the statement of activities.	(1,380,102)
Change in net pension asset not reflected in the funds.	(23,151)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds.	(6,665,000)
The repayment of principal of long term debt consumes the current financial resources of governmental funds.	9,043,800
Governmental funds report the effect of issuance costs, premiums discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	212,015
Accrued interest expense on long term debt is reported in the statement of activities but does not require the use of current financial resources; therefore accrued interest expense is not reported as expenditures in governmental funds.	213,628
Other post-employment benefits is reported in the statement of activities but does not require the use of current financial resources; therefore the benefits are not reported as expenditures in governmental funds	<u>(2,046,279)</u>
Change in net assets of governmental activities	<u>\$ (8,738,025)</u>

See Notes to Financial Statements

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CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENTS OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2008**

	Water Fund	Sewer Fund
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,472,132	\$ 5,118,005
Accounts receivable:		
Metered charges	4,496,110	2,740,399
Refuse collection	-	-
Other	18,419	222,147
Signatories	<u>356,773</u>	<u>1,848,268</u>
Total accounts receivable	4,871,302	4,810,814
Allowance for doubtful accounts	<u>1,176,902</u>	<u>960,165</u>
Net accounts receivable	<u>3,694,400</u>	<u>3,850,649</u>
Due from other funds	<u>-</u>	<u>1,826,136</u>
Total current assets	<u>5,166,532</u>	<u>10,794,790</u>
CAPITAL ASSETS:		
Land	2,595,840	28,450
Buildings	11,515,134	29,093,423
Land and building improvements	14,840,095	5,006,636
Machinery and equipment	19,406,423	12,543,500
Vehicles	2,823,306	1,940,593
Distribution and collection systems	41,401,416	10,649,926
Construction in progress	<u>339,901</u>	<u>970,109</u>
Total capital assets	92,922,115	60,232,637
Accumulated depreciation	<u>(33,228,304)</u>	<u>(33,665,875)</u>
Net capital assets	<u>59,693,811</u>	<u>26,566,762</u>
Other assets	<u>1,361,119</u>	<u>670,608</u>
Total noncurrent assets	<u>61,054,930</u>	<u>27,237,370</u>
TOTAL	<u>\$ 66,221,462</u>	<u>\$ 38,032,160</u>

See notes to financial statements

Statement consists of both facing pages

<u>Municipal Golf Course</u>	<u>Solid Waste Fund</u>	<u>Totals</u>	<u>Internal Service Fund</u>
<u>\$ 413,992</u>	<u>\$ 3,236,017</u>	<u>\$ 10,240,146</u>	<u>\$ 5,718,521</u>
-	-	7,236,509	-
-	1,250,199	1,250,199	-
-	-	240,566	-
-	-	2,205,041	-
-	1,250,199	10,932,315	-
-	595,852	2,732,919	-
-	654,347	8,199,396	-
-	-	1,826,136	-
<u>413,992</u>	<u>3,890,364</u>	<u>20,265,678</u>	<u>5,718,521</u>
1,134,759	-	3,759,049	-
227,475	1,017,066	41,853,098	-
2,861,221	1,438,630	24,146,582	-
728,329	1,436,214	34,114,466	-
268,154	2,802,171	7,834,224	-
37,465	-	52,088,807	-
-	-	1,310,010	-
5,257,403	6,694,081	165,106,236	-
<u>(2,402,812)</u>	<u>(3,611,040)</u>	<u>(72,908,031)</u>	-
<u>2,854,591</u>	<u>3,083,041</u>	<u>92,198,205</u>	-
-	-	2,031,727	-
<u>2,854,591</u>	<u>3,083,041</u>	<u>94,229,932</u>	-
<u>\$ 3,268,583</u>	<u>\$ 6,973,405</u>	<u>\$ 114,495,610</u>	<u>\$ 5,718,521</u>

(continued)

CITY OF ALLENTOWN, PENNSYLVANIA
STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008

	Water Fund	Sewer Fund
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 341,513	\$ 426,601
Accrued wages payable	145,849	178,081
Accrued interest payable	198,820	141,611
Due to other funds	2,400,026	-
Capital leases payable	94,947	379,789
Claims liability	-	-
Other liabilities	-	-
Accrued Vacation	200,566	254,021
Current portion of long term debt	<u>2,370,200</u>	<u>1,180,000</u>
Total current liabilities	<u>5,751,921</u>	<u>2,560,103</u>
LONG-TERM LIABILITIES:		
Capital lease payable	133,137	532,548
Bonds payable	15,832,200	11,055,000
Accrued vacation	<u>63,336</u>	<u>80,217</u>
Total long-term liabilities	<u>16,028,673</u>	<u>11,667,765</u>
Total liabilities	<u>21,780,594</u>	<u>14,227,868</u>
NET ASSETS :		
Invested in capital assets, net of related debt	41,263,327	13,419,425
Unrestricted	<u>3,177,541</u>	<u>10,384,867</u>
Total net assets	<u>44,440,868</u>	<u>23,804,292</u>
TOTAL	<u>\$ 66,221,462</u>	<u>\$ 38,032,160</u>

See Notes to Financial Statements

Statement consists of both facing pages

Municipal Golf Course	Solid Waste Fund	Totals	Internal Service Fund
\$ 21,710	\$ 815,852	\$ 1,605,676	\$ 409,264
11,356	52,825	388,111	5,351
-	-	340,431	-
-	-	2,400,026	-
-	-	474,736	-
-	-	-	2,244,630
468	76,978	77,446	-
11,208	38,220	504,015	246
-	-	3,550,200	-
<u>44,742</u>	<u>983,875</u>	<u>9,340,641</u>	<u>2,659,491</u>
-	-	665,685	-
-	-	26,887,200	-
<u>3,539</u>	<u>12,070</u>	<u>159,162</u>	<u>-</u>
<u>3,539</u>	<u>12,070</u>	<u>27,712,047</u>	<u>-</u>
<u>48,281</u>	<u>995,945</u>	<u>37,052,688</u>	<u>2,659,491</u>
2,854,591	3,083,041	60,620,384	-
<u>365,711</u>	<u>2,894,419</u>	<u>16,822,538</u>	<u>3,059,030</u>
<u>3,220,302</u>	<u>5,977,460</u>	<u>77,442,922</u>	<u>3,059,030</u>
<u>\$ 3,268,583</u>	<u>\$ 6,973,405</u>	<u>\$ 114,495,610</u>	<u>\$ 5,718,521</u>

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	Water Fund	Sewer Fund	Municipal Golf Course
OPERATING REVENUES:			
Charges for services:			
Metered charges	\$ 12,226,463	\$ 7,366,433	\$ -
Refuse collections	-	-	-
Recycling	-	-	-
Other charges	1,755,707	7,474,619	1,161,965
Miscellaneous	<u>140,283</u>	<u>194,807</u>	<u>116,758</u>
Total operating revenues	<u>14,122,453</u>	<u>15,035,859</u>	<u>1,278,723</u>
OPERATING EXPENSES:			
Personnel services	5,943,450	7,052,121	588,154
Utility services	562,829	748,008	17,653
Contracted services	213,145	767,647	109,279
Materials and supplies	629,265	939,698	211,501
Claims and benefits	-	-	-
Depreciation and amortization	2,052,336	1,907,194	149,790
Miscellaneous	<u>323,317</u>	<u>651,982</u>	<u>1,717</u>
Total operating expenses	<u>9,724,342</u>	<u>12,066,650</u>	<u>1,078,094</u>
OPERATING INCOME (LOSS)	<u>4,398,111</u>	<u>2,969,209</u>	<u>200,629</u>
NONOPERATING (EXPENSE) REVENUE:			
Investment income	66,485	168,065	15,175
Interest expense	(938,837)	(540,883)	-
Gain/Loss on Disposal of Capital Assets	-	-	-
Grants	<u>64,183</u>	<u>102,199</u>	<u>3,566</u>
Total nonoperating (expense) revenue	<u>(808,169)</u>	<u>(270,619)</u>	<u>18,741</u>
INCOME BEFORE TRANSFERS	3,589,942	2,698,590	219,370
TRANSFERS	<u>(1,844,210)</u>	<u>(1,772,781)</u>	<u>(228,805)</u>
NET INCOME (LOSS)	1,745,732	925,809	(9,435)
NET ASSETS, BEGINNING	<u>42,695,136</u>	<u>22,878,483</u>	<u>3,229,737</u>
NET ASSETS, ENDING	<u>\$ 44,440,868</u>	<u>\$ 23,804,292</u>	<u>\$ 3,220,302</u>

See Notes to Financial Statements

Statement consists of both facing pages

Solid Waste Fund	Totals	Internal Service Fund
\$ -	\$ 19,592,896	\$ -
12,632,578	12,632,578	-
748,763	748,763	-
-	10,392,291	14,254,877
<u>207,989</u>	<u>659,837</u>	<u>375,274</u>
<u>13,589,330</u>	<u>44,026,365</u>	<u>14,630,151</u>
2,125,067	15,708,792	-
18,080	1,346,570	-
9,595,892	10,685,963	-
292,273	2,072,737	-
-	-	16,219,914
341,879	4,451,199	-
<u>135,623</u>	<u>1,112,639</u>	<u>-</u>
<u>12,508,814</u>	<u>35,377,900</u>	<u>16,219,914</u>
<u>1,080,516</u>	<u>8,648,465</u>	<u>(1,589,763)</u>
149,229	398,954	254,235
-	(1,479,720)	-
(19,866)	(19,866)	-
<u>653,814</u>	<u>823,762</u>	<u>1,426</u>
<u>783,177</u>	<u>(276,870)</u>	<u>255,661</u>
1,863,693	8,371,595	(1,334,102)
<u>(523,688)</u>	<u>(4,369,484)</u>	<u>(46,000)</u>
1,340,005	4,002,111	(1,380,102)
<u>4,637,455</u>	<u>73,440,811</u>	<u>4,439,132</u>
<u>\$ 5,977,460</u>	<u>\$ 77,442,922</u>	<u>\$ 3,059,030</u>

CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Water Fund	Sewer Fund	Municipal Golf Course
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 13,802,670	\$ 14,888,479	\$ 1,278,723
Payments to suppliers for services	(1,785,400)	(3,129,968)	(334,882)
Payments to employees	<u>(5,925,679)</u>	<u>(7,008,228)</u>	<u>(585,768)</u>
Net cash provided by (used in) operating activities	<u>6,091,591</u>	<u>4,750,283</u>	<u>358,073</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received	64,183	102,199	3,566
Transfers	<u>(1,844,210)</u>	<u>(1,772,781)</u>	<u>(228,805)</u>
Net cash provided by (used in) noncapital financing activities	<u>(1,780,027)</u>	<u>(1,670,582)</u>	<u>(225,239)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(1,414,982)	(944,419)	(69,611)
Advance from/to other funds	(484,395)	(552,865)	-
Principal paid on capital debt	(2,505,200)	(660,000)	-
Payments of obligations under capital leases	(90,940)	(402,968)	-
Interest paid on long term obligations	<u>(937,315)</u>	<u>(655,631)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(5,432,832)</u>	<u>(3,215,883)</u>	<u>(69,611)</u>
CASH FLOWS FROM INVESTING ACTIVITIES,			
Interest received	<u>66,485</u>	<u>168,065</u>	<u>15,175</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,054,783)	31,883	78,398
CASH AND CASH EQUIVALENTS, BEGINNING	<u>2,526,915</u>	<u>5,086,122</u>	<u>335,594</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,472,132</u>	<u>\$ 5,118,005</u>	<u>\$ 413,992</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 4,398,111	\$ 2,969,209	\$ 200,629
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,052,336	1,907,194	149,790
Accounts receivable	(319,783)	(147,380)	-
Accounts payable	(56,844)	(22,633)	1,963
Accrued payroll	17,771	43,893	2,386
Other liabilities	<u>-</u>	<u>-</u>	<u>3,305</u>
Total adjustments	<u>1,693,480</u>	<u>1,781,074</u>	<u>157,444</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 6,091,591</u>	<u>\$ 4,750,283</u>	<u>\$ 358,073</u>

See Notes to Financial Statements

Statement consists of both facing pages

Solid Waste Fund	Totals	Internal Service Fund
\$ 13,445,255	\$ 43,415,127	\$ 14,630,151
(10,093,342)	(15,343,592)	(15,844,044)
<u>(2,118,041)</u>	<u>(15,637,716)</u>	<u>(188,361)</u>
<u>1,233,872</u>	<u>12,433,819</u>	<u>(1,402,254)</u>
653,814	823,762	1,426
<u>(523,688)</u>	<u>(4,369,484)</u>	<u>(46,000)</u>
<u>130,126</u>	<u>(3,545,722)</u>	<u>(44,574)</u>
(299,339)	(2,728,351)	-
-	(1,037,260)	(447,799)
-	(3,165,200)	-
(91,246)	(585,154)	-
<u>-</u>	<u>(1,592,946)</u>	<u>-</u>
<u>(390,585)</u>	<u>(9,108,911)</u>	<u>(447,799)</u>
<u>149,229</u>	<u>398,954</u>	<u>254,235</u>
1,122,642	178,140	(1,640,392)
<u>2,113,375</u>	<u>10,062,006</u>	<u>7,358,913</u>
<u>\$ 3,236,017</u>	<u>\$ 10,240,146</u>	<u>\$ 5,718,521</u>
<u>\$ 1,080,516</u>	<u>\$ 8,648,465</u>	<u>\$ (1,589,763)</u>
341,879	4,451,199	-
(144,075)	(611,238)	-
(2,676)	(80,190)	(330,294)
7,026	71,076	1,711
<u>(48,798)</u>	<u>(45,493)</u>	<u>516,092</u>
<u>153,356</u>	<u>3,785,354</u>	<u>187,509</u>
<u>\$ 1,233,872</u>	<u>\$ 12,433,819</u>	<u>\$ (1,402,254)</u>

CITY OF ALLENTOWN, PENNSYLVANIA

STATEMENTS OF FIDUCIARY NET ASSETS
DECEMBER 31, 2008

	Pension Trust Funds	Agency Funds
<u>ASSETS</u>		
CASH AND CASH EQUIVALENTS	\$ 9,406,401	\$ 9,797,705
DUE FROM OTHER FUNDS	133,751	-
INTEREST RECEIVABLE	260	-
INVESTMENTS, At fair value Mutual Funds	<u>84,479,692</u>	<u>-</u>
TOTAL	<u>\$ 94,020,104</u>	<u>\$ 9,797,705</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Payroll tax liabilities	\$ -	\$ 1,302,498
Due to other governments	<u>-</u>	<u>8,495,207</u>
Total liabilities	<u>-</u>	<u>9,797,705</u>
NET ASSETS:		
Reserved for pension benefits	<u>94,020,104</u>	<u>-</u>
TOTAL	<u>\$ 94,020,104</u>	<u>\$ 9,797,705</u>

See Notes to Financial Statements

CITY OF ALLENTOWN, PENNSYLVANIA

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Pension Trust Funds
<hr/>	
ADDITIONS:	
Contributions:	
Employer	\$ 9,618,294
Plan members	<u>1,493,944</u>
Total contributions	<u>11,112,238</u>
Investment income:	
Net depreciation in fair value of investments	(36,403,593)
Interest and dividends	3,363,560
Less investment expenses	<u>(150,731)</u>
Net investment income	<u>(33,190,764)</u>
Other income:	
Miscellaneous	<u>16,856</u>
Total other income	<u>16,856</u>
Total additions	<u>(22,061,670)</u>
DEDUCTIONS:	
Benefits paid to recipients	16,029,496
Administrative and other fees	<u>48,397</u>
Total deductions	<u>16,077,893</u>
CHANGE IN NET ASSETS	(38,139,563)
NET ASSETS, BEGINNING	<u>132,159,667</u>
NET ASSETS, ENDING	<u>\$ 94,020,104</u>

See Notes to Financial Statements

CITY OF ALLENTOWN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FINANCIAL REPORTING ENTITY

The City was incorporated in 1762 under the provisions of the constitution and general statutes of the Commonwealth of Pennsylvania. The City is a third-class city, as defined by state statutes. The City operates under a Home Rule Charter form of government and provides a full range of services, including public safety, roads, sanitation, health, culture and recreation, and general government services to its approximately 107,000 residents. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units, discussed in Note 2, are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

BASIS OF PRESENTATION

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

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

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

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING
AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

The City reports the following major governmental funds:

GENERAL FUND - is used to account for all financial transactions applicable to the general operations of the City except for those required to be accounted for in another fund.

PENNSYLVANIA MOTOR FUND - is used to account for the financial activity of the City's liquid fuels tax allocation from the Commonwealth of Pennsylvania.

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

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

CAPITAL PROJECTS FUND - is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

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

BEDI GRANT - Brownfield's Economic Development Initiative Grant - is used to account for the funds received from the Department of Housing and Urban Development for the Exide Battery site project.

The City reports five major proprietary funds:

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

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

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

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

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

The City's Fiduciary Fund accounts for the Pension Trust Fund and Agency Fund:

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

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

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

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

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

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

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

CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

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

- a. United States Treasury Bills.
- b. Short-term obligations of the United States Government or its agencies or instrumentalities.
- c. Deposits in savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Corporation or similar agencies to the extent that such accounts are so insured, and for any amounts above the insured maximum, provided that approved collateral as provided by law therefore is pledged by the depository.

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

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

INTERNAL BALANCES

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

RECEIVABLES AND PAYABLES

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

All property tax and per capita receivables are shown net of an allowance for uncollectibles. The property tax and per capita receivable allowance is calculated based on collection history and was approximately \$ 1,883,000 at December 31, 2008.

INVENTORIES

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are rendered as expenditures when consumed rather than when purchased. The City has determined that any unused materials and supplies on hand at December 31, 2008 are immaterial.

CAPITAL ASSETS

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

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

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

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

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

RESTRICTED NET ASSETS

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

COMPENSATED ABSENCES

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

DEFERRED REVENUES

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

BOND DISCOUNTS AND ISSUANCE COSTS

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

PROPERTY TAXES

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

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

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

The 2008 tax levy was 17.52 mills.

INTERFUND TRANSACTIONS

As a result of its operations, the City affects a variety of transactions between funds to finance operations. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2008, 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, 2008, the City carried excess loss insurance policies which limited its liability to \$ 450,000 per occurrence for workers' compensation, \$ 100,000 per occurrence for property and flood loss, and \$ 10,000 per occurrence for employee theft. Governmental and proprietary funds are charged based on historical loss patterns. These charges are reimbursed through the various funds. The City's funds reported loss claims based upon the evaluation of an independent claims manager. The City maintains the integrity of funds so provided, together with earnings thereon, in the Risk Management Internal Service Fund solely for purposes of liquidating claims incurred. Under its self-insurance plan, the City accrues the estimated expense of workers' compensation, property, casualty and general liability claim costs based on claims filed subsequent to year end, and an additional amount for incurred but not yet reported claims based on prior experience. An accrual for such costs of \$ 2,244,630 is included in the accompanying financial statements. Claim payments based on actual claims ultimately filed could differ materially from these estimates. Settled claims from these risks have not exceeded commercial insurance coverage for the past four years.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. REPORTING ENTITY

In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, the City has evaluated all related entities (authorities, commissions and affiliates) for the possible inclusion in the financial reporting entity.

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

ALLENTOWN REDEVELOPMENT AUTHORITY

The Allentown Redevelopment Authority (the "Authority"), an entity legally separate from the City, is governed by a board appointed by the Mayor and administers the Community Development Block Grant Program and other urban renewal and improvement grants.

ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION

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

ALLENTOWN PARKING AUTHORITY

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

CONDENSED FINANCIAL STATEMENTS

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

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

CONDENSED FINANCIAL STATEMENTS
 DISCRETELY PRESENTED COMPONENT UNITS
 STATEMENTS OF NET ASSETS
 DECEMBER 31, 2008

	ALLENTOWN REDEVELOPMENT AUTHORITY	ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION*	ALLENTOWN PARKING AUTHORITY	TOTAL
ASSETS				
Cash and cash equivalents	\$ 565,758	\$ 1,966,881	\$ 1,405,867	\$ 3,938,506
Cash and cash equivalents, restricted	-	1,518,853	149	1,519,002
Investment, certificate of deposit	-	-	1,257,313	1,257,313
Accounts receivable, net	3,525	342,677	245,984	592,186
Due from other governments	61,990	-	-	61,990
Other assets	-	1,026,042	666,932	1,692,974
Capital assets, net	<u>1,569,163</u>	<u>26,216,359</u>	<u>44,967,301</u>	<u>72,752,823</u>
Total assets	<u>\$ 2,200,436</u>	<u>\$ 31,070,812</u>	<u>\$ 48,543,546</u>	<u>\$ 81,814,794</u>
LIABILITIES				
Accounts payable	\$ 30,474	\$ 87,080	\$ 265,134	\$ 382,688
Long-term debt	-	6,514,459	19,497,122	26,011,581
Other liabilities	<u>27,498</u>	<u>325,873</u>	<u>13,147,913</u>	<u>13,501,284</u>
Total liabilities	<u>57,972</u>	<u>6,927,412</u>	<u>32,910,169</u>	<u>39,895,553</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,569,163	19,501,900	23,762,953	44,834,016
Unrestricted	<u>573,301</u>	<u>4,641,500</u>	<u>(8,129,576)</u>	<u>(2,914,775)</u>
Total net assets	<u>2,142,464</u>	<u>24,143,400</u>	<u>15,633,377</u>	<u>41,919,241</u>
Total liabilities and net assets	<u>\$ 2,200,436</u>	<u>\$ 31,070,812</u>	<u>\$ 48,543,546</u>	<u>\$ 81,814,794</u>

* Presented as of June 30, 2008.

**CONDENSED FINANCIAL STATEMENTS
 DISCRETELY PRESENTED COMPONENT UNITS
 STATEMENTS OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2008**

	ALLENTOWN REDEVELOPMENT AUTHORITY	ALLENTOWN ECONOMIC DEVELOPMENT CORPORATION*	ALLENTOWN PARKING AUTHORITY	TOTAL
Program revenues:				
Charges for services	\$ -	\$ 1,062,643	\$ 6,123,520	\$ 7,186,163
Grants	1,147,634	5,114,693	19,887	6,282,214
General revenues:				
Investment income	3,338	152,284	85,788	241,410
Other income	<u>1,505,924</u>	<u>-</u>	<u>106,751</u>	<u>1,612,675</u>
Total revenues	<u>2,656,896</u>	<u>6,329,620</u>	<u>6,335,946</u>	<u>15,322,462</u>
Expenses:				
Operating and other expenses	1,476,425	2,394,262	2,892,617	6,763,304
Depreciation and amortization	-	269,909	1,575,842	1,845,751
Interest expense	-	324,898	960,529	1,285,427
Gain (loss) on disposal of assets	<u>-</u>	<u>31,446</u>	<u>(7,112)</u>	<u>24,334</u>
Total expenses	<u>1,476,425</u>	<u>3,020,515</u>	<u>5,421,876</u>	<u>9,918,816</u>
Net income	1,180,471	3,309,105	914,070	5,403,646
Net assets, beginning of year	<u>961,993</u>	<u>20,834,295</u>	<u>14,719,307</u>	<u>36,515,595</u>
Net assets, end of year	<u>\$ 2,142,464</u>	<u>\$ 24,143,400</u>	<u>\$ 15,633,377</u>	<u>\$ 41,919,241</u>

* Presented as of June 30, 2008.

3. DEPOSITS AND INVESTMENTS

The carrying amounts of cash and investments at December 31, 2008 consist of the following:

Cash and cash equivalents	\$ 41,535,201
Investments	<u>93,926,303</u>
	<u>\$135,461,504</u>

RECONCILIATION TO STATEMENTS OF NET ASSETS/BALANCE SHEETS

Cash and cash equivalents:	
Governmental	\$ 16,534,983
Business-type	5,796,112
Fiduciary	<u>19,204,106</u>
	<u>41,535,201</u>
Investments:	
Governmental	5,002,577
Business-type	4,444,034
Fiduciary	<u>84,479,692</u>
	<u>93,926,303</u>
	<u>\$135,461,504</u>

CASH AND CASH EQUIVALENTS

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

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

At December 31, 2008, the carrying amounts of the City's bank deposits were \$ 41,535,201 and the bank balances were \$ 45,287,379, of which \$ 44,287,379 was exposed to custodial risk because it was not covered by Federal Depository Insurance.

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

INVESTMENTS

As of December 31, 2008, the City's investments were comprised of the following:

Certificate of deposit	\$ 503,284
Mutual funds	84,479,692
Debt securities	<u>8,943,327</u>
 Total	 <u>\$ 93,926,303</u>

As of December 31, 2008, the City had the following investments in debt securities:

Debt Security Maturities (in Years)

Investment Type	Fair Value	Debt Security Maturities (in Years)				Rating
		Less than 1	1-5	6-10	More than 10	
United States Treasury Notes	\$ 5,060,919	\$ 71,249	\$ 2,923,088	\$ 2,066,582	\$ -	N/A
United States Government agency securities	402,495	6,099	44,183	346,425	5,788	S&P's AAA Moody's Aaa
Corporate bonds	2,881,731	1,023,440	1,858,291	-	-	S&P's AAA Moody's Aaa
Other fixed income	<u>598,182</u>	<u>598,182</u>	<u>-</u>	<u>-</u>	<u>-</u>	S&P's AAA Moody's Aaa
Total debt securities	<u>\$ 8,943,327</u>	<u>\$ 1,698,970</u>	<u>\$ 4,825,562</u>	<u>\$ 2,413,007</u>	<u>\$ 5,788</u>	

INTEREST RATE RISK

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

The City's pension plans have a formal investment policy that has set a 10-year investment horizon and targets fixed income investments to be no more than 40% of the investment portfolio.

CREDIT RISK

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

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

CUSTODIAL CREDIT RISK

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2008, \$93,423,019 of the City's investments are held by the investment's counterparty, not in the name of the City.

COMPONENT UNITS' CUSTODIAL CREDIT RISK - DEPOSITS

The City's component units have custodial credit risk on cash deposits. Custodial credit risk is the risk that in the event of a bank failure, the deposits of the City's component units will not be returned. The carrying amounts of the City's component units bank deposits were \$6,714,672 and the bank balances were \$6,697,077, of which \$5,291,708 was exposed to custodial risk because it was not covered by Federal Depository Insurance.

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS

Activity in the capital assets for the year ended December 31, 2008 is as follows:

	January 1, <u>2008</u>	<u>Additions</u>	<u>Disposals</u>	December 31, <u>2008</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 8,409,945	\$ -	\$ -	\$ 8,409,945
Property held for development	705,431	4,520	-	709,951
Art	95,166	-	-	95,166
Construction in progress	<u>11,852,643</u>	<u>3,463,366</u>	<u>(1,161,102)</u>	<u>14,154,907</u>
 Total capital assets not being depreciated	 <u>21,063,185</u>	 <u>3,467,886</u>	 <u>(1,161,102)</u>	 <u>23,369,969</u>
Capital assets being depreciated:				
Buildings	22,892,925	-	-	22,892,925
Land and building improvements	19,344,219	759,059	-	20,103,278
Machinery and equipment	14,909,582	1,258,386	(53,804)	16,114,164
Vehicles	14,178,022	2,115,944	(238,280)	16,055,686
Infrastructure	<u>63,166,136</u>	<u>-</u>	<u>-</u>	<u>63,166,136</u>
 Total capital assets being depreciated	 <u>134,490,884</u>	 <u>4,133,389</u>	 <u>(292,084)</u>	 <u>138,332,189</u>
Less accumulated depreciation for:				
Buildings	15,112,009	583,022	-	15,695,031
Land and building improvements	9,260,047	820,105	-	10,080,152
Machinery and equipment	11,047,230	772,597	(16,036)	11,803,791
Vehicles	12,279,231	883,472	(224,896)	12,937,807
Infrastructure	<u>26,462,063</u>	<u>987,191</u>	<u>-</u>	<u>27,449,254</u>
 Total accumulated depreciation	 <u>74,160,580</u>	 <u>4,046,387</u>	 <u>(240,932)</u>	 <u>77,966,035</u>
 Total capital assets being depreciated, net	 <u>60,330,304</u>	 <u>87,002</u>	 <u>(51,152)</u>	 <u>60,366,154</u>
 Governmental activities capital assets, net	 <u>\$ 81,393,489</u>	 <u>\$ 3,554,888</u>	 <u>\$ (1,212,254)</u>	 <u>\$ 83,736,123</u>

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

	January 1, <u>2008</u>	<u>Additions</u>	<u>Disposals</u>	December 31, <u>2008</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,759,049	\$ -	\$ -	\$ 3,759,049
Construction in progress	<u>1,060,294</u>	<u>1,331,834</u>	<u>(1,082,118)</u>	<u>1,310,010</u>
Total capital assets not being depreciated	<u>4,819,343</u>	<u>1,331,834</u>	<u>(1,082,118)</u>	<u>5,069,059</u>
Capital assets being depreciated:				
Buildings	41,853,098	-	-	41,853,098
Land and building improvements	23,984,758	161,824	-	24,146,582
Machinery and equipment	33,494,456	636,104	(16,094)	34,114,466
Vehicles	7,361,061	732,567	(259,404)	7,834,224
Distribution and collection systems	<u>51,294,160</u>	<u>830,148</u>	<u>(35,501)</u>	<u>52,088,807</u>
Total capital assets being depreciated	<u>157,987,533</u>	<u>2,360,643</u>	<u>(310,999)</u>	<u>160,037,177</u>
Less accumulated depreciation for:				
Buildings	21,255,043	1,128,408	-	22,383,451
Land and building improvements	7,477,626	695,722	-	8,173,348
Machinery and equipment	21,021,512	1,579,569	-	22,601,081
Vehicles	6,026,703	397,327	(255,634)	6,168,396
Distribution and collection systems	<u>13,085,074</u>	<u>532,183</u>	<u>(35,502)</u>	<u>13,581,755</u>
Total accumulated depreciation	<u>68,865,958</u>	<u>4,333,209</u>	<u>(291,136)</u>	<u>72,908,031</u>
Total capital assets being depreciated, net	<u>89,121,575</u>	<u>(1,972,566)</u>	<u>(19,863)</u>	<u>87,129,146</u>
Business-type activities capital assets, net	<u>\$ 93,940,918</u>	<u>\$ (640,732)</u>	<u>\$ (1,101,981)</u>	<u>\$ 92,198,205</u>

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to governmental activities as follows:

General government	\$ 454,915
Public safety	1,044,807
Public works	1,889,818
Health	40,025
Parks and recreation	495,675
Community development and planning	<u>66,726</u>
 Total	 <u>\$ 3,991,966</u>

5. INTERFUND RECEIVABLE AND PAYABLE BALANCES

The composition of interfund balances as of December 31, 2008 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose for Balance</u>	<u>Amount</u>
General	Trexler	Short-term borrowing	\$ 703,172
	CDBG	Short-term borrowing/grant	326,900
	E-911	Short-term borrowing	<u>15,767</u>
	Total due to General Fund		<u>1,045,839</u>
Capital Projects	Water	Short-term borrowing	2,400,026
	E-911	Capital Project Expenditures	<u>678,574</u>
	Total due to Capital Projects		<u>3,078,600</u>
Sewer	Capital	Short-term borrowing	<u>1,826,136</u>
	Total due to Sewer Fund		<u>1,826,136</u>
Total			<u>\$ 5,950,575</u>

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

6. INDIVIDUAL FUND INTERFUND TRANSFERS

Interfund transfers for the year ended 12/31/08, consisted of the following:

	Transfer In:				
	General Fund	Debt Service Fund	Capital Projects	E-911 Fund	Total
<i>Transfers Out:</i>					
General	\$ -	\$ 6,102,553	\$ -	\$ 662,837	\$ 6,765,390
CDBG	354,662	62,855	-	-	417,517
Trexler	-	-	375,000	-	375,000
E-911	9,888	62,855	-	-	72,743
Risk	46,000	-	-	-	46,000
Water	1,844,210	-	-	-	1,844,210
Sewer	1,647,071	125,710	-	-	1,772,781
Solid Waste	523,688	-	-	-	523,688
Golf	<u>122,325</u>	<u>106,480</u>	<u>-</u>	<u>-</u>	<u>228,805</u>
Total	<u>\$ 4,547,844</u>	<u>\$ 6,460,453</u>	<u>\$ 375,000</u>	<u>\$ 662,837</u>	

The majority of interfund transfers were for recurring annual transfers. Transfers totaling \$ 3,993,182 were made to the General Fund for reimbursement of services rendered by the General Fund for other operating funds. A transfer totaling \$ 375,000 was made to Capital Projects for enhancement of the park system. A transfer from the General Fund to the E-911 Fund was made to cover ineligible expenses as required by the Pennsylvania Public Safety Emergency Telephone Act.

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

7. PENSION PLANS

PLAN DESCRIPTIONS

The City has three single employer defined benefit pension plans covering Policemen, Firemen and certain non-uniformed employees (Officers and Employees Plan). The Plans provide for retirement, disability, vested and death benefits to plan members and their beneficiaries. Cost of living adjustments are provided at the discretion of the Policemen, Firemen, and Officers and Employees Retirement Boards. All full-time City employees hired prior to June 9, 1976 are eligible to participate in these Plans. The City's three single employer pension plans do not issue separate financial statements.

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

VALUATION OF INVESTMENTS

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

	<u>Officers and Employees' Pension Fund</u>	<u>Policemen's Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Total Pension Trust Funds</u>
<u>ASSETS</u>				
CASH AND CASH EQUIVALENTS	\$ 1,066,443	\$ 5,785,879	\$ 2,554,079	\$ 9,406,401
INTEREST RECEIVABLE	29	160	71	260
OTHER RECEIVABLE	-	-	133,751	133,751
INVESTMENTS, at fair value	<u>14,758,756</u>	<u>40,755,673</u>	<u>28,965,263</u>	<u>84,479,692</u>
NET ASSETS, reserved for pension benefits	<u>\$ 15,825,228</u>	<u>\$ 46,541,712</u>	<u>\$ 31,653,164</u>	<u>\$ 94,020,104</u>

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

	Officers and Employees' Pension Fund	Policemen's Pension Fund	Firemen's Pension Fund	Total Pension Trust Funds
ADDITIONS:				
Contributions:				
Employer	\$ 355,279	\$ 6,022,935	\$ 3,240,080	\$ 9,618,294
Plan members	<u>20,788</u>	<u>885,801</u>	<u>587,355</u>	<u>1,493,944</u>
Total contributions	<u>376,067</u>	<u>6,908,736</u>	<u>3,827,435</u>	<u>11,112,238</u>
Investment earnings:				
Net depreciation in fair value of investments	(6,616,918)	(17,521,742)	(12,264,933)	(36,403,593)
Interest and dividends	607,259	1,625,734	1,130,567	3,363,560
Less investment expenses	<u>(35,932)</u>	<u>(64,284)</u>	<u>(50,515)</u>	<u>(150,731)</u>
Net investment earnings	<u>(6,045,591)</u>	<u>(15,960,292)</u>	<u>(11,184,881)</u>	<u>(33,190,764)</u>
Other income, miscellaneous	<u>3,394</u>	<u>9,526</u>	<u>3,936</u>	<u>16,856</u>
Total additions	<u>(5,666,130)</u>	<u>(9,042,030)</u>	<u>(7,353,510)</u>	<u>(22,061,670)</u>
DEDUCTIONS:				
Benefits paid to recipients	2,906,896	8,584,746	4,537,854	16,029,496
Administrative and other fees	<u>16,099</u>	<u>16,101</u>	<u>16,197</u>	<u>48,397</u>
Total deductions	<u>2,922,995</u>	<u>8,600,847</u>	<u>4,554,051</u>	<u>16,077,893</u>
CHANGE IN NET ASSETS	(8,589,125)	(17,642,877)	(11,907,561)	(38,139,563)
NET ASSETS, BEGINNING	<u>24,414,353</u>	<u>64,184,589</u>	<u>43,560,725</u>	<u>132,159,667</u>
NET ASSETS, ENDING	<u>\$ 15,825,228</u>	<u>\$ 46,541,712</u>	<u>\$ 31,653,164</u>	<u>\$ 94,020,104</u>

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

<u>Covered Employees</u>	<u>Officers and Employees</u>	<u>Policemen</u>	<u>Firemen</u>	<u>PMRS</u>
	<u>Closed 6/8/76</u>	<u>All full-time members of the Police Force</u>	<u>All full-time members of the Fire Department</u>	<u>All full-time employees not previously covered</u>
Number of active plan members	7	164	137	574
Number of retirees and beneficiaries receiving benefits	243	247	162	208
Terminated employees entitled to deferred benefits	-	-	-	26

CONTRIBUTIONS

Pennsylvania Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act of the Commonwealth of Pennsylvania (as amended) (Act 205) requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the Plans' biannual actuarial valuation. According to Act 205, actuarial valuations may be made biennial, and the most recent valuation for all of the City's Plans was completed as of January 2007. The MMO includes the normal cost, estimated administrative expenses and an amortization of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirements established by the MMO which exceed state and member contributions must be funded by the employer.

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

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

	<u>Officers and Employees</u>	<u>Policemen</u>	<u>Firemen</u>
Annual required contribution (MMO)	\$ 355,279	\$ 6,022,935	\$ 3,106,329
Interest on net pension asset	(2,492)	(40,714)	(22,527)
Adjustment to annual required contribution	<u>3,369</u>	<u>55,054</u>	<u>30,461</u>
Annual pension cost	356,156	6,037,275	3,114,263
Contributions made	<u>355,279</u>	<u>6,022,935</u>	<u>3,106,329</u>
Decrease in net pension asset	877	14,340	7,934
Net pension (asset), beginning of year	<u>(31,146)</u>	<u>(508,928)</u>	<u>(281,592)</u>
Net pension (asset), end of year	<u>\$ (30,269)</u>	<u>\$ (494,588)</u>	<u>\$ (273,658)</u>

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

----- Three-Year Trend Information -----				
	<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
Officers and Employees	12/31/06	\$ 655	100.0%	\$ 32,049
	12/31/07	529,778	99.8%	31,146
	12/31/08	356,156	99.8%	30,269
Policemen	12/31/06	3,021,215	99.7%	523,681
	12/31/07	5,856,082	99.8%	508,928
	12/31/08	6,037,275	99.8%	494,588
Firemen	12/31/06	1,247,280	99.5%	289,756
	12/31/07	3,057,491	99.7%	281,592
	12/31/08	3,114,263	99.7%	273,658
Pennsylvania Municipal Retirement Plan	12/31/06	446,843	100.0%	-
	12/31/07	1,263,532	100.0%	-
	12/31/08	1,374,389	100.0%	-

The annual required contribution for each of the Plans for the current year was determined as part of the January 1, 2007 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) investment rate of return of 8% for the three City Plans and 6% for the State (PMRS) Plan and (b) projected salary increases of 5% per year for City Plans and 5.2% for PMRS Plan, including an inflation component of 3.5% for the PMRS Plan. The actuarial value of assets was based on market value plus end of the year accrual adjustments, if any. The PMRS Plan's actuarial accrued liability was fully funded at January 1, 2008.

INVESTMENTS THAT REPRESENT FIVE PERCENT OR MORE OF PLAN NET ASSETS

At December 31, 2008, none of the Plans had investments in any one organization which represented five percent or more of the plan net assets.

UNFUNDED ACTUARIAL LIABILITY

The City's unfunded actuarial accrued liability is being amortized as a level dollar of projected payroll, and the period is calculated every valuation. The remaining amortization period ranges from 13 to 15 years for the Officers and Employees Plan, 4 to 26 years for the Policemen Plan and 6 to 26 years for the Firemen Plan.

FUNDED STATUS AND FUNDING PROGRESS:

The funded status of the City's Pension Funds as of January 1, 2007, the most recent actuarial valuation date, is as follows:

	ACTUARIAL VALUE OF ASSETS <u>(A)</u>	ACTUARIAL ACCRUED LIABILITY (AAL) - ENTRY AGE <u>(B)</u>	UNFUNDED AAL (UAAL) <u>(B-A)</u>	FUNDED RATIO <u>(A/B)</u>	COVERED PAYROLL <u>(C)</u>	UAAL/(AAL) AS A PERCENTAGE OF COVERED PAYROLL
Officers and Employees Plan	\$ 21,982,132	\$ 25,711,360	\$ 3,729,228	85.50%	\$ 327,197	1,139.75%
Policemen's Pension Fund	64,733,840	114,801,290	50,067,450	56.39%	10,126,336	494.43%
Firemen's Pension Fund Plan	43,525,113	64,764,292	21,239,179	67.21%	7,350,267	288.96%
Pennsylvania Municipal Retirement System Plan	101,184,335	87,426,679	(13,757,656)	115.74%	24,003,648	(57.31)%

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

8. LONG-TERM DEBT

The City issues notes payable and general obligation bonds to finance the capital projects of the City. At December 31, 2008, general long-term debt obligations of the City's governmental activities were as follows:

<u>Notes and General Obligation Bonds</u>	Balance Outstanding January 1, 2008	<u>Additions</u>	<u>Reductions</u>	<u>Principal Refunded</u>	Balance Outstanding December 31, 2008	<u>Current Portion</u>
1993 General Obligation Bonds, 5.70% interest, due in 2010	\$ 325,000	\$ -	\$ -	\$ -	\$ 325,000	\$ 160,000
1993 General Obligation Refunding Bonds, 5.65% interest, due in 2010	1,525,000	-	-	-	1,525,000	740,000
1997 General Obligation Bonds, 4.45% to 5.00% interest, payable in increasing annual installments of \$ 315,000 in 2009 to \$365,000 in 2012	1,360,000	-	-	1,360,000	-	-
1998 General Obligation Bonds, 4.00% to 5.00% interest, payable in varying annual installments of \$ 420,000 in 2009 to \$290,000 in 2021	5,050,000	-	-	5,050,000	-	-
2001 General Obligation Bond, 2.80% to 5.00% interest, serial portion payable in varying annual installments of \$ 355,000 in 2009 to \$ 290,000 in 2021	4,360,000	-	-	-	4,360,000	355,000
2003 General Obligation Bond, 2.00% to 5.50% interest, serial portion payable in increasing annual installments of \$ 535,000 in 2009 to \$ 725,000 in 2022	6,555,000	-	-	-	6,555,000	-

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Notes and General <u>Obligation Bonds</u>	Balance Outstanding January 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Refunded</u>	Balance Outstanding December 31, <u>2008</u>	<u>Current Portion</u>
2004 General Obligation Pension Bond, 1.31% to 5.25% interest, serial portion payable in increasing annual installments of \$ 650,000 in 2005 to \$ 2,260,000 in 2034	\$ 32,020,000	\$ -	\$ 695,000	\$ -	\$ 31,325,000	\$ -
2004 Taxable General Obligation Bond, 1.31% to 4.44% interest, serial portion payable in increasing annual installments of \$ 1,800,000 in 2005 to \$ 2,405,000 in 2014	2,605,000	-	1,330,000	-	1,275,000	15,000
2004 Tax-Exempt General Obligation Bond, 1.00% to 5.00% interest, serial portion payable in increasing annual installments of \$ 230,000 in 2005 to \$ 490,000 in 2024	6,085,000	-	255,000	-	5,830,000	260,000
2006 Note, 3.85% interest, varying principal annual payments of \$ 218,400 to \$ 286,400 due in 2014	1,788,400	-	226,800	-	1,561,600	236,800
2006 Guaranteed Lease Revenue Note, 5.84% to 2016, then 9.40%, payable in annual installments of \$ 693,750 to 2016, then \$ 1,003,820 to 2031	9,876,668	-	117,000	-	9,759,668	123,800
2007 Taxable General Obligation Note, semiannual accretion to produce yields of 6.66% to 6.99%, payable in increasing installments of \$ 2,075,000 in 2021 to \$ 7,040,000 in 2036	14,773,981	-	-	-	14,773,981	-
2007 Taxable General Obligation Note, 5.62% to 5.77%, payable in varying annual installments of \$ 5,000 in 2008 to \$ 45,000 in 2021	7,990,000	-	5,000	-	7,985,000	30,000

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Notes and General Obligation Bonds	Balance Outstanding January 1, 2008	Additions	Reductions	Principal Refunded	Balance Outstanding December 31, 2008	Current Portion
2008 Taxable General Obligation Bond, 3.00% to 3.7%, payable in varying annual installments of \$ 5,000 in 2008 to \$ 315,000 in 2018	\$ -	\$ 6,665,000	\$ 5,000	\$ -	\$ 6,660,000	\$ 655,000
Total Notes and General Obligation Bonds	94,314,049	6,665,000	2,633,800	6,410,000	91,935,249	2,575,600
Discount on bond issuance	1,162,524	-	71,868	-	1,090,656	-
Total	\$ 95,476,573	\$ 6,665,000	\$ 2,705,668	\$ 6,410,000	\$ 93,025,905	\$ 2,575,600

At December 31, 2008, the business-type activities' long-term debt consisted of the following:

Revenue Notes and Bonds	Balance Outstanding January 1, 2008	Additions	Reductions	Principal Refunded	Balance Outstanding December 31, 2008	Current Portion
1993 Guaranteed Water Revenue Bonds, 5.65% interest, one installment of \$ 775,000 due in 2010	\$ 775,000	\$ -	\$ -	-	\$ 775,000	\$ 375,000
1993 Guaranteed Water Revenue Refunding Bonds, 5.65% interest, installment of \$ 330,000 due in 2010	330,000	-	-	-	330,000	160,000
1993 Guaranteed Sewer Revenue Bonds, 5.65% interest, one installment of \$ 645,000 due in 2010	645,000	-	-	-	645,000	315,000
1997 Guaranteed Water Revenue Bonds, Second Series, 4.55% to 5.00% interest, serial portion payable in varying annual installments of \$ 210,000 in 2005 to \$ 200,000 in 2012	895,000	-	-	895,000	-	-
1997 Guaranteed Sewer Revenue Refunding Bonds, Second Series, 4.45% to 5.00% interest, serial portion payable in increasing annual installments of \$ 60,000 in 2005 to \$ 80,000 in 2012	350,000	-	-	350,000	-	-

CITY OF ALLENTOWN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

<u>Revenue Notes and Bonds</u>	<u>Balance Outstanding January 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Refunded</u>	<u>Balance Outstanding December 31, 2008</u>	<u>Current Portion</u>
1998 Guaranteed Water Revenue Bonds, 4.00% to 5.00% interest, serial portion payable in varying annual installments of \$ 455,000 in 2005 to \$ 30,000 in 2018	\$ 3,305,000	\$ -	\$ -	\$ 3,305,000	\$ -	\$ -
1998 Guaranteed Sewer Revenue Bonds, 4.00% to 5.00% interest, serial portion payable in varying annual installments of \$ 1,010,000 in 2005 to \$ 485,000 in 2018	5,675,000	-	-	5,675,000	-	-
2001 Guaranteed Water Revenue Bonds, 2.80% to 5.00% interest, serial portion payable in varying annual installments of \$ 1,270,000 in 2005 to \$ 110,000 in 2021	9,230,000	-	1,380,000	-	7,850,000	905,000
2001 Guaranteed Sewer Revenue Bonds, 2.80% to 5.00% interest, serial portion payable in increasing annual installments of \$ 70,000 in 2005 to \$ 135,000 in 2021	1,430,000	-	75,000	-	1,355,000	80,000
2003 Guaranteed Water Revenue Refunding Bonds, 2.00% to 4.375% interest, serial portion payable in varying annual installments of \$ 350,000 in 2005 to \$ 110,000 in 2019	1,080,000	-	155,000	-	925,000	5,000
2003 Guaranteed Sewer Revenue Refunding Bonds, 2.00% to 4.40% interest, serial portion payable in increasing annual installments of \$ 240,000 in 2005 to \$ 255,000 in 2020	4,485,000	-	285,000	-	4,200,000	295,000
2004 Guaranteed Water Revenue Bonds, 1.00% to 4.40% interest, serial portion payable in varying annual installments of \$ 180,000 in 2005 to \$ 95,000 in 2024	2,410,000	-	180,000	-	2,230,000	190,000

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Revenue Notes and Bonds	Balance Outstanding January 1, 2008	Additions	Reductions	Principal Refunded	Balance Outstanding December 31, 2008	Current Portion
2004 Guaranteed Sewer Revenue Bonds, 1.00% to 4.00% interest, serial portion payable in increasing annual installments of \$ 25,000 in 2005 to \$ 35,000 in 2018	\$ 310,000	\$ -	\$ 25,000	\$ -	\$ 285,000	\$ 25,000
2006 Water Note, 3.85% interest, varying principal annual payments of \$ 327,600 to \$ 429,600 in 2014	2,682,600	-	340,200	-	2,342,400	355,200
2008 Guaranteed Water Revenue Bonds, 3.00% to 3.70% interest varying principal annual payments of \$ 615,000 in 2008 to \$ 30,000 in 2018	-	4,365,000	615,000	-	3,750,000	380,000
2008 Guaranteed Sewer Revenue Bonds, 3.00% to 3.70% interest, varying principal annual payments of \$ 530,000 in 2008 to \$ 490,000 in 2018	-	6,280,000	530,000	-	5,750,000	465,000
Total	\$ 33,602,600	\$ 10,645,000	\$ 3,585,200	\$ 10,225,000	\$ 30,437,400	\$ 3,550,200

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Debt service requirements to maturity, including interest of \$ 102,804,151, are as follows:

<u>Year Ending</u>	<u>Business- Type Activities</u>	<u>Governmental Activities</u>	<u>Total</u>
2009	\$ 4,759,451	\$ 6,123,319	\$ 10,882,770
2010	4,777,308	6,308,622	11,085,930
2011	4,577,699	6,309,572	10,887,271
2012	4,581,986	6,309,383	10,891,369
2013	4,293,325	6,317,362	10,610,687
2014-2018	11,391,991	33,205,167	44,597,158
2019-2023	2,327,048	33,588,150	35,915,198
2024-2028	99,180	34,137,670	34,236,850
2029-2033	-	34,950,917	34,950,917
2034	-	21,118,650	21,118,650
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 36,807,988</u>	<u>\$188,368,812</u>	<u>\$225,176,800</u>

ADVANCE REFUNDING

During 2008, the City issued General Obligation Bonds of \$ 6,665,000, Water Revenue Bonds of \$ 4,365,000 and Sewer Revenue Bonds of \$ 6,280,000 with variable interest rates ranging from 3.00% to 3.70%. Proceeds provided for advance refunding of the outstanding principal amount of its General Obligation Bond, Second Series of 1997 and General Obligation Bonds, Series of 1998, Guaranteed Water Revenue Bonds, Second Series of 1997 and Guaranteed Water Revenue Bonds, Series of 1998, Guaranteed Sewer Revenue Bonds, Second Series of 1997 and Guaranteed Sewer Revenue Bonds Series of 1998. As a result of the above transaction, the 1997 and 1998 bonds were considered to be defeased in the amount of \$ 16,635,000, and the liability for that debt has been removed from the statement of net assets. The advance refunding increased the City's total debt service payments and provided an economic gain (difference between the present value of the debt payment on the old and new debt) of approximately \$ 1,104,760.

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

DEFEASANCE OF DEBT

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

At December 31, 2008, \$ 23,670,000 of general obligation bonds, \$ 3,530,000 of water revenue bonds and \$ 5,360,000 of sewer revenue bonds outstanding are considered defeased.

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

	Balance January 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2008</u>	<u>Current Portion</u>
Accrued vacation:					
Governmental activities	\$ 1,682,053	\$ 2,746,124	\$ 2,668,832	\$ 1,759,345	\$ 1,458,863
Business-type activities	<u>639,961</u>	<u>703,540</u>	<u>680,324</u>	<u>663,177</u>	<u>504,015</u>
Total accrued vacation	<u>\$ 2,322,014</u>	<u>\$ 3,449,664</u>	<u>\$ 3,349,156</u>	<u>\$ 2,422,522</u>	<u>\$ 1,962,878</u>
Capital leases:					
Governmental activities	\$ 838,471	\$ 1,582,940	\$ 513,691	\$ 1,907,720	\$ 456,410
Business-type activities	<u>1,725,575</u>	<u>-</u>	<u>585,154</u>	<u>1,140,421</u>	<u>474,736</u>
Total capital leases	<u>\$ 2,564,046</u>	<u>\$ 1,582,940</u>	<u>\$ 1,098,845</u>	<u>\$ 3,048,141</u>	<u>\$ 931,146</u>

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

CITY OF ALLENTOWN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

The capital assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Machinery, equipment and vehicles	\$ 4,101,108	\$ 3,333,071	\$ 7,434,179
Less accumulated depreciation	<u>1,847,051</u>	<u>1,899,895</u>	<u>3,746,946</u>
	<u>\$ 2,254,057</u>	<u>\$ 1,433,176</u>	<u>\$ 3,687,233</u>

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>
2009	\$ 553,188	\$ 514,679	\$ 1,067,867
2010	515,044	514,679	1,029,723
2011	360,197	171,560	531,757
2012	246,956	-	246,956
2013 and Thereafter	<u>530,616</u>	<u>-</u>	<u>530,616</u>
	2,206,001	1,200,918	3,406,919
Less interest	<u>298,281</u>	<u>60,497</u>	<u>358,778</u>
	<u>\$ 1,907,720</u>	<u>\$ 1,140,421</u>	<u>\$ 3,048,141</u>

DISCRETELY PRESENTED COMPONENT UNITS' LONG-TERM DEBT:

At December 31, 2008, the long-term debt of the discretely presented component units consisted of the following:

	Balance January 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2008</u>	<u>Current Portion</u>
2003 Guaranteed Parking Revenue Bonds, 2.00% to 3.90% interest, serial portion payable in increasing annual installments of \$ 440,000 in 2005 to \$ 355,000 in 2016	\$ 3,225,000	\$ -	\$ 480,000	\$ 2,745,000	\$ 500,000

CITY OF ALLENTOWN, PENNSYLVANIA
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	Balance January 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2008</u>	<u>Current Portion</u>
2004 Guaranteed Parking Revenue Refunding Bonds, 1.75% to 3.50% interest, serial portion payable in increasing annual installments of \$ 555,000 in 2005 to \$ 695,000 in 2013	\$ 3,860,000	\$ -	\$ 600,000	\$ 3,260,000	\$ 615,000
2005 Guaranteed Parking Revenue Bonds, 3.15% to 5.00% interest, serial portion payable in increasing annual installments of \$ 235,000 in 2006 to \$ 730,000 in 2035	11,810,000	-	230,000	11,580,000	235,000
2007 Parking Revenue Bond, 4.20%, serial portion payable in increasing annual installments of \$ 70,000 in 2010 to \$ 275,000 in 2031	3,500,000	-	-	3,500,000	-
Note payable to PA Minority Business Development Authority; payable interest only at 1.5% in semiannual installments of \$ 2,250; principal balance due at maturity in January 2012; proceeds used to establish a revolving loan fund to stimulate creation, retention, and expansion of minority-owned businesses; one loan has been issued to an area company at June 30, 2008	300,000	-	-	300,000	-
Mortgage payable to National Penn Bank for the construction of a 87,500 square foot building; secured by a shared first mortgage lien on the property located at 601 South 10 th Street; payable for a three year term with interest only monthly payments and principal due upon sale of the condominium units with all payments made first to the construction loan until paid in full and then to the secured loan	-	2,066,687	-	2,066,681	-

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	Balance January 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2008</u>	<u>Current Portion</u>
Mortgage payable to Commonwealth Financing Authority for site improvements in development of the South 10th Street project; secured by shared first lien with bank on tract of land at Bridgeworks; all principal and interest payments deferred, and no interest accrues until sale or lease of site or subdivided portion; upon sale of any portion, proceeds shall be applied to reduce principal amount of loan; then interest accrues at 3%, and level monthly payments of principal and interest begin to fully amortize loan by maturity date of November 2026; an agreement of sale for a portion of the commercial building under construction is in effect at June 30, 2007	\$ 953,125	\$ -	\$ 582,164	\$ 370,961	\$ -
Mortgage payable to Merrill Lynch Mortgage Trust (originated with Countrywide Commercial Real Estate Finance, Inc.); secured by land and buildings of Bridgeworks Industrial Center; payable for a 10-year term with 15 year amortization in monthly installments of \$ 25,237 including payment of principal and interest at 5.78% fixed, ballooning in June 2015; additional monthly payment of \$ 14,122 is required to fund escrow accounts subject to specified withdrawal conditions; AEDC is required to comply with certain continuing loan provisions	<u>3,855,199</u>	<u>-</u>	<u>78,382</u>	<u>3,776,817</u>	<u>452,391</u>
Total long-term debt	27,503,324	2,066,681	1,970,546	27,599,459	1,802,391
Less unamortized deferred costs of refunding	<u>319,650</u>	<u>-</u>	<u>40,886</u>	<u>278,764</u>	<u>40,886</u>
	<u>\$ 27,183,674</u>	<u>\$ 2,066,681</u>	<u>\$ 1,929,660</u>	<u>\$ 27,320,695</u>	<u>\$ 1,761,505</u>

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The Allentown Parking Authority has a \$ 2,000,000 line of credit with a bank at 70% of the Wall Street Journal Prime Rate, which was 2.275% at December 31, 2008. At December 31, 2008, \$ 340,853 was outstanding on the line of credit.

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

Debt service requirements to maturity, including interest of \$ 13,545,470, are as follows for the Allentown Parking Authority and AEDC:

<u>Year Ending</u>	<u>Allentown Parking Authority</u>	<u>Allentown Economic Development Corporation</u>	<u>Total</u>
2009	\$ 2,225,154	\$ 1,957,781	\$ 4,182,935
2010	2,069,666	332,489	2,402,155
2011	2,078,060	1,117,777	3,195,837
2012	2,081,044	605,092	2,686,136
2013	2,083,809	302,841	2,386,650
2014-2018	6,167,908	3,655,195	9,823,103
2019-2023	5,103,523	-	5,103,523
2024-2028	5,157,633	-	5,157,633
2029-2033	4,674,207	-	4,674,207
2034-2035	<u>1,532,750</u>	<u>-</u>	<u>1,532,750</u>
Total	<u>\$ 33,173,754</u>	<u>\$ 7,971,175</u>	<u>\$ 41,144,929</u>

9. RISK MANAGEMENT, ACCRUED CLAIMS LIABILITY

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

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

	<u>2008</u>	<u>2007</u>
Accrued claims liability, January 1,	\$ 1,728,538	\$ 1,680,608
Included claims (including estimated claims incurred but not reported as of December 31):		
Provision for current year events	3,068,779	2,090,750
Payments	<u>(2,552,687)</u>	<u>(2,042,820)</u>
Accrued claims liability, December 31	<u>\$ 2,244,630</u>	<u>\$ 1,728,538</u>
Current portion	<u>\$ 2,244,630</u>	<u>\$ 1,728,538</u>

The City uses an internal service fund to account for its risk financing activities. The fund accounts for the risk financing activities of the City, but does not constitute a transfer of risk from the City. The basis for reporting an estimated loss from a claim as an expenditure/expense and as a liability is if both the loss is probable and can be reasonably estimated.

10. OTHER 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 health care coverage provide to active employees. The Plan provides health care, prescription drug, dental and vision coverage for the retiree, spouse and dependents until Medicare eligibility (normally age 65). Retirees contribute 25% of the monthly healthcare premiums established by the City.

FUNDING POLICY AND ANNUAL OPEB COST:

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

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The City's annual other post-employment benefit (OPEB) cost expense for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

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

Annual required contribution (ARC)	\$ 3,856,279
Interest on net OPEB obligation	-
Adjustment to the annual required contribution	<u>-</u>
Annual OPEB cost	3,856,279
Contributions made	<u>1,810,000</u>
Increase in net OPEB obligation	2,046,279
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u>\$ 2,046,279</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 for each of the plans were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2008	\$ 3,856,279	47%	\$ 2,046,279

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FUNDED STATUS AND FUNDING PROGRESS:

The funded status of the plan as of January 1, 2008, the most recent actuarial valuation, was as follows:

Actuarial present value at attained age (APVAA):	
Active members	\$47,284,032
Retired members	<u>26,439,085</u>
Total APVAA	<u>\$73,723,117</u>
Unfunded Actuarial accrued liability (UAAL):	
Active members	\$26,955,544
Retired members	<u>26,439,085</u>
Total AAL	<u>\$53,394,629</u>

Actuarial Value of Assets (AVA)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability (Funding Excess) as a Percentage
\$ -	\$53,394,629	- %	\$47,322,686	112%

Annual required contribution (ARC):	
Normal cost	\$ 1,949,296
30-year amortization of UAAL	<u>1,906,983</u>
 Total ARC	 <u><u>\$ 3,856,279</u></u>

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required Schedules of Funding Progress presented as supplementary information provide multiyear 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 Township and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions are as follows:

Actuarial valuation date	January 1, 2008
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of pay
Remaining amortization period	29 years
Asset valuation method	N/A

Actuarial assumptions:

Investment rate of return	4% per annum
Projected salary increases	3.5% per year due to inflation, plus 1.5% due to merit
Healthcare inflation rate	Declining scale from an 8% increase for 2009 decreasing 0.5% per year to a 5% increase for 2015 and later

11. DEFICIT FUND BALANCES

The deficit fund balance of \$ 749,275 at December 31, 2008 in the Trexler Fund was created due to an advance to the Capital Projects Fund and a delay in recognition of grant revenue. This deficit balance will resolve itself in 2009 as grant revenues are received.

The deficit fund balance of \$ 306,625 at December 31, 2008 in the E-911 Fund was due to expenses incurred in anticipation of receipts never received from the funding source. This deficit balance will resolve itself through additional collections of program revenues or a transfer of funds from the General Fund.

12. COMMITMENT

The City has a commitment for the purchase and installation of equipment at the Wastewater treatment plant of approximately \$ 589,000 as of December 31, 2008.

13. CONTINGENCIES

SUPPORT FROM GOVERNMENTAL UNITS

OTHER

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2008, significant amounts of grant expenditures have not been audited by the grantor government, but the City believes that disallowed expenditures, if any, based on subsequent audits, will not have a material effect on the financial position of the City.

LITIGATION

PRIMARY GOVERNMENT

The City is involved in various lawsuits arising in the ordinary course of its municipal activities. Management believes that the resolution of these actions is not expected to have a material adverse effect on the financial statements of the City.

14. NEW ACCOUNTING PRONOUNCEMENTS

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

The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

The GASB has issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value and other information that they currently present for other investments reported at fair value. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2008.

The GASB has issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. The disclosures required by Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, have been incorporated into this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

15. SUBSEQUENT EVENT

In April 2009, the City issued General Obligation Notes for \$ 5,310,000 to fund the cost of certain capital projects.