

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
CITY OF ALLENTOWN
DECEMBER 31, 2008**

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Director of Finance
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June 26, 2009

Honorable Mayor and Members of City Council
Allentown, Pennsylvania

The Comprehensive Annual Financial Report (CAFR) of the City of Allentown, Pennsylvania, for the fiscal year ended December 31, 2008 is submitted herewith. This report was prepared by the City's Department of Finance. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain maximum understanding of the City's financial affairs have been included.

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

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

FINANCIAL INFORMATION

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



are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. As a result of the implementation of GASB-34, the format of the CAFR has been expanded to include a Management Discussion and Analysis (MD&A) section that provides an analysis of the City's financial condition for 2008.

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

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

OTHER INFORMATION

Independent Audit: The City's Administrative Code requires that an annual audit of the books of account, financial records, and transactions of the City be performed by independent certified public accountants. The accounting firm of Reinsel Kuntz Leshner LLP was selected by City Council in 2006 to perform the annual audit for fiscal years 2005 through 2007, with an additional 2 year extension to 2009. In addition, various bond indentures also require such an audit. The City has complied with this requirement and the auditors' opinion has been included in this report.

Initiatives for the Year: The administration placed its 2008 focus on the continued revitalization of the city. A significant effort was made to bolster confidence in public safety by implementing strategies to effectively and efficiently utilize the police force and to further reduce crime. The city began the rebuilding of the police department, following numerous retirements in late 2005 and in 2006. The city began to employ technology, such as cameras, to assist the department. The fire department continued its leadership over emergency management training, establishing Allentown as a pacesetter in emergency certified employees and management practices.

In addition to continuing efforts in public safety, Allentown has maintained an aggressive redevelopment effort under the guidance of the Department of Community and Economic Development. The work of the department, supported by numerous legislative and civic leaders has resulted in several distinct economic development projects, including a AAA level minor league

baseball stadium. Other initiatives are in motion, particularly in the downtown area and the Arts District, with more prospective development in the planning stages.

During 2007 and continuing in 2008, the new city administration undertook cost containment measures and revenue generating efforts to achieve positive ongoing finances, addressing several years of unfavorable budget variances and a negative General Fund balance. In 2006 the City also, implemented a lease/sublease transaction (in effect a loan) to eliminate the accumulated negative fund balance.

While the City General Fund rebounded from 2006 and 2007, in 2008 the revenues were significantly impacted by the economic times.

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

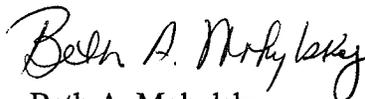
Acknowledgments: The timely preparation of the comprehensive annual financial report was made possible by the dedicated service of the entire staff of the Department of Finance. We would especially like to express our appreciation to the following staff members who assisted and contributed so significantly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

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

Sincerely,



Lawrence F. Hilliard
Director of Finance



Beth A. Mohylsky
Manager, Treasury & Accounting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Allentown
Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

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



A handwritten signature in black ink, appearing to read "M. L. Post".

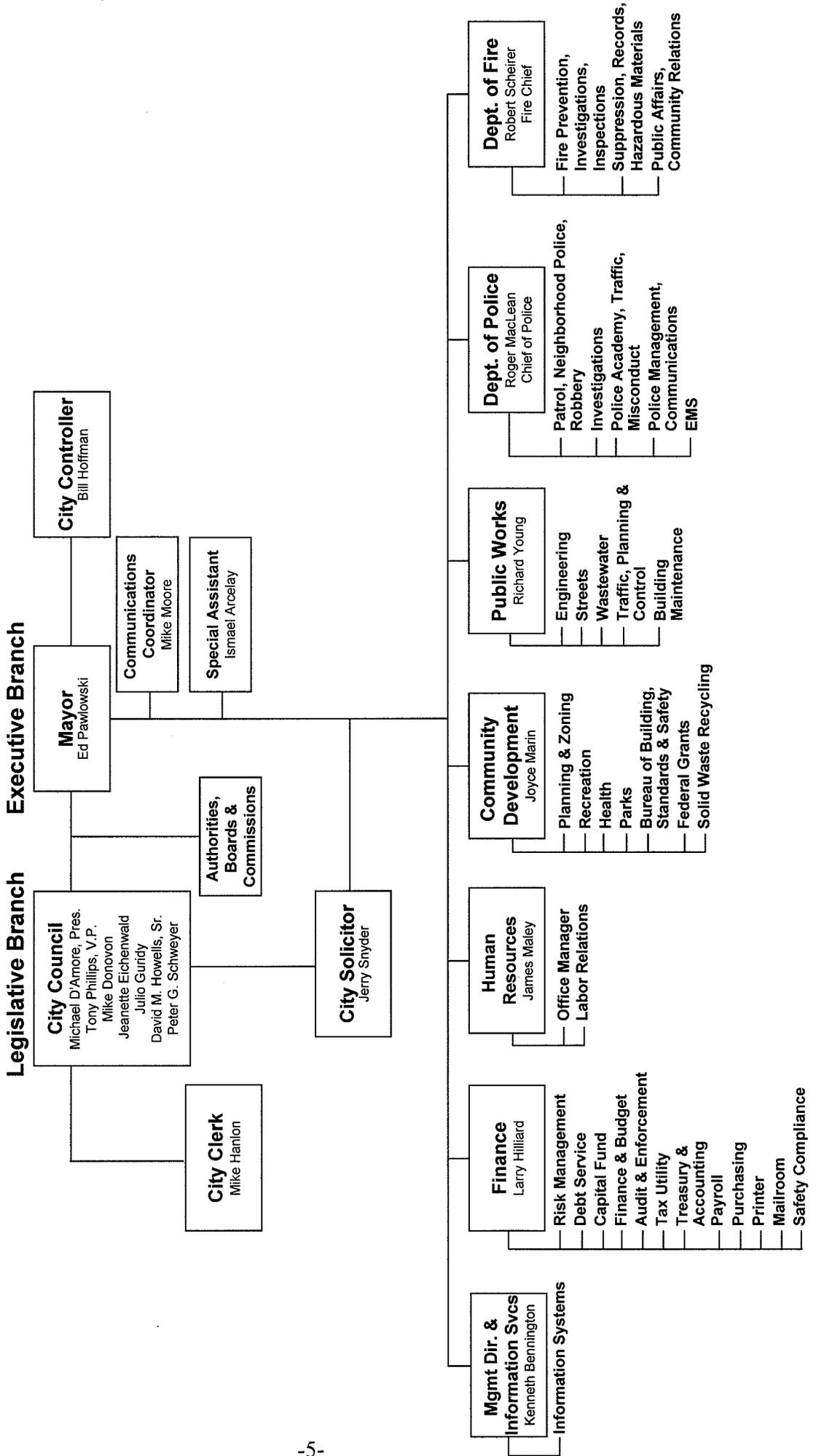
President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emmer".

Executive Director

City of Allentown

The Voters of Allentown



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