



April 2, 2008

Honorable Mayor and City Council
City of Albuquerque, New Mexico

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Albuquerque, New Mexico, (City), for the fiscal year ended June 30, 2007. New Mexico State Statute 12-6-3, NMSA 1978 mandates that the financial affairs of the City's records be thoroughly examined and audited each year by independent public accountants. Federal law also requires that a single audit be performed for federal grant funds in conformance with the provisions of the Single Audit Act of 1984 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". All information related to the single audit, including the schedule of expenditures of federal awards, findings and recommendations, and the independent auditors' reports on the internal control structure and compliance with applicable laws and regulations are included in the Single Audit Section.

This report was prepared by the Department of Finance and Administrative Services with the assistance of various other City departments. City management assumes full responsibility for the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. Moss Adams, Certified Public Accountants, have issued an unqualified opinion on the City's CAFR for the year ended June 30, 2007. As indicated by the opinion of our independent auditors, the report fairly presents the financial position and the results of operations of the City as measured by the financial activity of its various funds. The report has been set forth in a manner that will give the reader a broad understanding of the City's financial affairs. It includes disclosures necessary for the reader to gain an understanding of the City's financial activities. The independent auditors' report is located at the front of the financial statements.

Management's Discussion & Analysis (MD&A) immediately follows the independent auditors report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

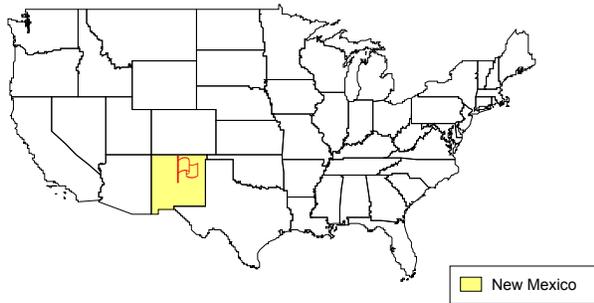
Profile of the City

The City of Albuquerque, New Mexico is located in the central region of the state and is the economic and population hub of New Mexico. With an estimated population of 500,000 in 2007, Albuquerque ranks 35th in population of the nation's cities and is the largest city in New Mexico with roughly one-fourth of the state's population. The City was founded in 1706, chartered as a town in 1885, and organized under territorial law as a city in 1891. The City became a charter city in 1917 and the voters approved a home rule amendment to the charter in 1971. In 1974, the electorate voted to establish a mayor-council form of government; the City Council consists of nine council members elected from districts. As a governmental entity, the City is not subject to Federal or State income taxes. The City provides traditional services such as public safety, culture and recreation, public works, highways and streets, storm drainage, and refuse collection. In addition, the City operates parking facilities, a transit system, an international airport, and a housing authority.

The CAFR of the City includes all government activities, organizations and functions for which the City is financially accountable. The criteria used to determine financial accountability are based on, and consistent with, the pronouncements of the Governmental Accounting Standards Board which sets criteria for defining the financial reporting entity. Effective July 1,

2003, water and sewer services that used to be provided by the City are now provided by the Albuquerque-Bernalillo County Water Utility Authority, which is operated by the City under the terms of a Memorandum of Understanding with the Authority. The City does not have relationships with any other organizations not included in this CAFR of such nature and significance that exclusion would render the City's financial statements incomplete or misleading.

Summary of Local Economy



Albuquerque is the major commercial, trade, service and financial center of the state. It is located in the central part of the state at the intersection of two major interstate highways, and served by both rail and air. The Albuquerque Metropolitan Statistical Area (MSA) includes Bernalillo, Sandoval, Torrance and Valencia counties. The City has a population of approximately 500,000 and the MSA approximately 800,000. The largest employers in the Albuquerque area are the University of New Mexico, Albuquerque Public Schools, Sandia National Labs (SNL), and Kirtland Air Force Base.

The Albuquerque economy has an industry composition not unlike that of the U.S. as a whole. Manufacturing, while a smaller part of the Albuquerque economy, has not declined in importance as in the U.S. where manufacturing has declined substantially since the 1960s.

Albuquerque MSA Employment in Thousands

	<i>Employment FY/07</i>	<i>Share of FY07 Employment</i>	<i>Growth FY/06 to FY/07</i>	<i>Compound Annual Average FY/02 to FY/07</i>
NAICS CATEGORY				
Total Nonfarm Employment (does not include military)	395.27	100%	2.6%	1.8%
Natural Resources and Mining and Construction	31.05	8%	2.1%	5.2%
Manufacturing	24.11	6%	2.9%	-1.2%
Trade, Transportation, and Utilities	68.03	17%	1.2%	0.7%
Information	9.66	2%	7.2%	-3.3%
Financial Activities	19.29	5%	-0.6%	0.2%
Aggregate of Services	151.66	38%	3.5%	2.7%
Professional and Business Services	64.05	16%	3.3%	2.0%
Educational and Health Services	48.58	12%	3.1%	3.8%
Leisure and Hospitality	39.03	10%	4.4%	2.6%
Other Services	12.24	3%	2.0%	1.7%
Government	79.23	20%	2.5%	2.1%
MILITARY	6.317	NA	1%	-0.2%

In the near term, Albuquerque is benefiting from strong growth, increased tourism and a construction boom. Unemployment rates remain low and averaged 3.8% in FY/07. Several large manufacturing firms have recently moved to Albuquerque and/or expanded. The broadening of the industrial base to include aviation will help Albuquerque continue to grow and prosper. The City believes it is well positioned to attract new investment by suppliers, customers, and other producers. The national labs are another strength in the Albuquerque economy. Sandia National Laboratories (SNL) has devoted a great deal of research to terrorism and homeland security and the mission to protect the nuclear weapons arsenal. The micro-systems technology, or

nano-technology, for which SNL is well known, may provide many novel and inexpensive answers to medical and materials sciences. The labs expertise and technology is also becoming more readily available to the private sector.

Additional historic economic information is presented in the statistical section of this report.

Long-term financial planning

As a matter of City policy, the General Fund is required to maintain an operating reserve equal to one-twelfth of the total annual appropriation level. This standard is more conservative than the State's standard as it includes transfers and nonrecurring appropriations. This reserve is "funded" annually as part of the annual budget process and is modified as necessary, if material, throughout the year to reflect changes in appropriations. Annually, the budget process begins with the development and publication of a Five-Year Forecast which estimates future revenues and expenditures for the General Fund and the general fund subsidized funds. The purpose of this report is to identify key trends in revenues and expenditures and to provide information about the financial challenges anticipated over the next few years. The City's Forecasting Advisory Committee, including experts from within and outside government, reviews the forecasts and revenue projections prepared by City staff. Revenues are monitored monthly and expenditures are reviewed quarterly.

The City also develops a Decade Plan that guides the capital improvements program (CIP) and forms the basis for the general obligation bond program which is presented to and voted on by the public in odd-numbered years. This process allows for long-term planning for both initial construction costs as well as additional operating costs to staff, operate and maintain new facilities required in the community.

The City is committed to performance-based budgeting which drives the development of both operating and capital budgets.

Relevant Financial Policies

The City has a well developed system of program performance budgeting. Program strategies are developed to impact the defined and monitored community conditions which move the City towards achieving its goals. Each program strategy is a collection of specific service activities that are monitored for financial and performance management. Department directors are held responsible for the fiscal performance of their units as well as the programmatic performance of their units. The City has adopted the practice of not "cleaning-up" program over expenditures, but rather reporting them in the comprehensive annual financial report as budget overspent. This practice provides necessary information for future budget cycles and brings attention to the reasons for the budget overage. The City does "clean-up" funds in the event that they are overspent. In most cases when funds require "clean-up", there is sufficient fund balance to make the appropriation.

Historically, the City has been conservative in its approach to financial matters, minimizing long-term debt cycles to control interest costs and stringently monitoring and controlling the use of both recurring and non-recurring operating revenues.

Major Initiatives

Operation of the Metropolitan Detention Center (MDC) was transferred back to Bernalillo County on July 1, 2006. The City had operated the MDC under the terms of a Joint Powers Agreement (JPA) with the County since 2002, paying 50% of the operating costs of the MDC. During the year, the City provided a significant financial subsidy to the County in the amount of \$14.3 million to support the operations the MDC.

Other initiatives of particular interest during the year included animal care funding for the first phase of a four-year plan to make Albuquerque a "live-exit" city; funding for the Fire Department to assume responsibility for conducting fire safety inspections at all Albuquerque public and private schools; funding for the development of an enhanced ADA certification process for Mini-Ride qualifications; funding to develop a four-year facilities plan with related technology for our future library system; funding for the expansion of security at the Albuquerque Sunport; funding for the implementation costs of a new core financial system for the City and for the Police interoperability system; and funding for increased staffing and contractual assistance to expedite the development and updating of area, sector and redevelopment plans.

The City has a long history of commitment to both our natural and built environment. In future years, there will be more attention and resources devoted to the creation and maintenance of a "sustainable" community. The City is in the process of converting its fleet to alternative fuels which we expect to take a number of years.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Albuquerque for its CAFR for the fiscal year ended June 30, 2006. This is the 27th consecutive year the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal year beginning July 1, 2006. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan, and a communications medium.

The preparation of this report could not have been accomplished without the dedicated services of the staff of the Department of Finance and Administrative Services. We wish to express our sincere appreciation to all members of the Department who contributed to its preparation and recognize the major effort of the Accounting Division and its Financial Reporting Section in administering the City's accounting system and in preparing this report. We also wish to thank each of you for your interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

Tanda Meadors, Director
Department of Finance & Administrative Services