I. Summary of significant accounting policies

The financial statements of the City of Albuquerque, New Mexico (City) have been prepared in conformity with generally accepted accounting principles as applied to governmental entities. The significant governmental accounting policies are described below.

A. Reporting entity

The City of Albuquerque, New Mexico (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, water and sewer services, and refuse collection. In addition, the City operates parking facilities, a transit system, an international airport, and a housing authority.

The City of Albuquerque (the primary government) for financial reporting purposes consists of funds, departments, and programs for which the City is financially accountable.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government if they are unable to adopt a budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. Based on the foregoing criteria, the City has determined that Albuquerque Bernalillo County Water Utility Authority (Authority), created with an effective date of July 1, 2003, is a component unit of the City. The Authority's governing board is composed of three members of the City Council, three members of the County of Bernalillo Commission and the Mayor of the City. The Authority's Comprehensive Annual Financial Report as of and for the year ended June 30, 2007 is available by contacting the Authority at the following address; Fifth floor, P.O. Box 1293, Albuquerque, NM 87103. See Note IV P.

The City has determined that it does have relationships with other organizations that are considered to be component units of the City. However, those organizations, not included herein, are of such nature and significance that exclusion would not render the City's financial statements incomplete or misleading.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Internal Service Fund activity is eliminated to the extent of the net income/loss. *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 a segment 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. All remaining governmental and business-type (enterprise) funds are aggregated and reported as non-major funds.

C. 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 financial statements. The agency fund is reported on the *accrual basis of accounting* and has no measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts and property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes, net of estimated refunds and uncollectible amounts, is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collectible within the current period or within one month following the year-end. Revenues not considered available are recorded as deferred revenues.

Property taxes, gross receipts taxes, motor vehicle taxes, cigarette taxes, gasoline taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Derived gross receipts tax revenue is recognized when the underlying exchange transaction takes place. A small portion of the gross receipts tax revenue is derived from an estimate of delinquent taxes not yet collected and available. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures are recorded when the related fund liability is incurred, except for a) principal and interest payments on general long-term debt which are recorded when amounts have been accumulated in the debt service funds for the current debt service payments on July 1 in the following year and b) vacation and sick leave pay, which are recognized as expenditures only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources. Indirect expense allocations that have been made in the funds are shown in a separate column and are not included in the expenses column. The allocation of indirect expenses is based on the relative usage by the function charged to all functions for services rendered by all central service activities of the general government such as Accounting, Information Services, Treasury, Budgeting, and other central services.

The City reports the following major governmental funds:

General Fund. This fund is the City's primary operating fund and is used to account for the general operations of the City and for all financial resources except those that are required to be accounted for in another fund.

General Obligations Bond Debt Service Fund. This fund accounts for the monies set aside for the payment of principal and interest of all general obligation bonds. The principal source of revenue is from property taxes.

Capital Acquisition Fund. This fund accounts for capital projects for which financing is provided by the sale of general obligation and revenue bonds, miscellaneous revenues and various grants.

The City reports the following major proprietary (enterprise) funds:

Airport Fund. This fund accounts for the operations of the Albuquerque International Sunport.

Refuse Disposal Fund. This fund accounts for the general operations of providing refuse removal services.

Transit Fund. This fund accounts for the operations of the City’s Sun Tran bus system.

The City reports the following fund types:

Special Revenue Funds. To account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Debt Service Funds. To account for the accumulation of resources for, and the payment of, general and special assessment long-term principal, interest, and related costs.

Capital Projects Funds. To account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Enterprise Funds. These funds account for resources generally through services for which the City charges customers – either outside, or internal units or departments of the City. These funds report on the full accrual basis of accounting.

Permanent Funds. These funds account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific programs. The expendable trust funds account for the investment earnings from proceeds of the sale of certain properties.

Internal Service Funds. These funds account for inventory warehousing and issues; worker's compensation, tort and other claims insurance coverage; vehicle maintenance and motor pool services; and communication services to City departments. In addition, these funds provide health insurance coverage to City employees.

Agency Fund. This fund accounts for monies held by the City in a custodial capacity on behalf of third parties or other agencies.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). All governmental and business-type activities of the City follow the Financial Accounting Standards Board (FASB) Statements and interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. 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 FASB Statements and interpretations issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's risk management and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. 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 non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues, such as charges for services, result from exchange transactions in which each party receives and gives up essentially equal values. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues or expenses. These include operating subsidies, investment earnings, interest expense, and transactions that result from non-exchange transactions or ancillary activities.

The modified accrual basis of accounting is followed by the governmental fund types for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period. The City considers revenue available if amounts are collected within one month after year-end.

Those revenues susceptible to accrual are property taxes, gross receipts taxes, investment income and charges for services. Grant revenues are recognized as revenues when the related costs are incurred. All other revenues are recognized when they are received and are not susceptible to accrual, because they are usually not measurable until payment is actually received. Expenditures are recorded as liabilities when they are incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The accrual basis of accounting is utilized by proprietary and agency fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City reports unearned revenue on its combined balance sheet. Unearned revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria methods are met or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as needed.

The City enters into interest rate swap agreements to modify interest rates on the Airport Refunding Series 95 Revenue Bond debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

A significant portion of the cash and investments of funds of the City is pooled for investment purposes. The pooled cash investment program of the City is operated under the provisions of City ordinance and a specific City investment policy. The policy states that the City shall invest cash balances over the anticipated amount needed to meet operating requirements. Investments are recorded at fair value. The balance reported for each participating fund as "Cash, Investments, and Accrued Interest" represents the equity of that fund in the pooled cash, investments, and accrued interest. Interest earnings on pooled investments are allocated to the participating funds based on average daily balances.

The investment policy states that the City will not commit any funds invested in the pool to maturities longer than three years from the date of purchase, except investments held to meet legal reserve requirements on bond indebtedness. The maturity date of these investments will not exceed the final maturity date of the bond issue to which they are pledged. Funds are invested on the basis of a minimum of three bids and/or offers. Certificates of deposit are based on competitive rates for specified maturities.

All investments are valued at quoted market prices except for the investment in Special Assessments District bonds and in State of New Mexico Mortgage Finance Authority bonds that are computed at amortized cost approximating market value.

The investment in the State of New Mexico local government investment pool (LGIP) are valued at fair value based on quoted market prices as of the valuation date in accordance with GASB Statement No. 31. The State Treasurer LGIP is not SEC registered. The State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10 I through 6-10-10 P and Sections 6-10-10.1A and E, NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary. This pool is subject to the standards set forth in the State Treasurer's Local Government Investment Policy document incorporated in and made a part of the State Treasurer's Investment Policy document. The Independent Auditors' Report, together with the Financial Statements, the accompanying Notes to the Financial Statements and the Independent Auditors' Report on Compliance and Internal Controls are available from the State Investment Council, 2055 South Pacheco Street, Suite 100, Santa Fe, New Mexico 87505, upon written request.

The following categories of investments are specifically authorized by the policy:

<u>Repurchase Agreements</u> - secured by collateral, which is delivered to a third-party safekeeping institution, with a market value equal to or greater than the value of the agreement.

<u>U.S. Treasury Obligations</u> - bills, notes, and bonds.

<u>Obligations of Federal Agencies or Instrumentalities</u> - interest bearing or discount form.

<u>Municipal Bonds</u> - rated in any of the three highest major rating categories by one or more nationally recognized rating agencies.

The following categories of deposits are specifically authorized by the policy:

<u>Checking accounts</u> - at insured financial institutions.

<u>Certificates of Deposit</u> - subject to restrictions set forth in the City's Fiscal Agent Ordinance (City policy requires a minimum of 50% security consisting of insurance and/or collateral).

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year that are expected to be paid back within the year are referred to as "due to/from other funds." Lending/borrowing arrangements not expected to be paid back within the year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. Proprietary fund receivables are recorded as revenue when earned including services earned but not billed. The City Refuse services are not recorded until billed. See Note I. D. 17. of the Notes to the Financial Statements. The receivables of proprietary funds include billing for residential and commercial customers for City refuse services, consignment sales of bus tokens for transit services, space rental fees from commercial customer at the airport and baseball stadium, and from tenant rental fees for City Housing services. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific customer accounts, the aging of the accounts receivables, and historical experience. All property tax receivables are shown net of an allowance for uncollectibles.

3. Inventories and prepaid items

The inventories in the general fund consist of fuel, vehicle parts, and fluids. Inventories of supplies are valued at average cost. Expenditures in governmental funds and expenses in proprietary funds are recorded as inventory items and expensed when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Land held for sale

Land held for sale, which consists primarily of approximately 4,357 acres located throughout the State of New Mexico obtained by trade with the federal government in July 1982, as part of the Acquisition and Management of Open Space Permanent Fund. Upon sale of these properties, a portion of the gain, if any, as defined in an agreement, is payable to a third party. Other land was obtained through foreclosure proceedings required by special assessment bond ordinances. The land for sale is valued at the lower of cost or fair market value.

For the government-wide financial statements, the City recognizes income on real estate transactions by recording the entire gross profit on sales that meet the requirements for the accrual method. Transactions that do not meet the requirements for the accrual method are recorded using the deposit method or installment method until such time as the requirements for the accrual method are met. Under the deposit method, cash received is recorded as a deposit. Under the installment method, the City records the entire contract price and the related costs at the time the transaction is recognized as a sale. Concurrently, the gross profit on the sale is deferred and is subsequently recognized as revenue as payments of principal are received on the related contract receivable. In the financial statements for the governmental funds, the City recognizes income from the sale of real estate when the principal on mortgage contracts are collected. At the time of the sale, the principal on the real estate contracts are recorded as deferred revenue.

5. Capital assets

Capital assets, which include land, buildings and improvements, machinery and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. State of New Mexico Administrative Code requires state and local governmental agencies to capitalize fixed assets costing in excess of $5,000. Currently, the City defines capital assets as assets with an initial, individual cost of more than $5,000 and estimated useful life in excess of one year. The City implemented the new $5,000 capitalization threshold in fiscal year 2007 for items purchased during the fiscal year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Works of art and historical treasures are not capitalized because those are: 1) held for public exhibition rather that for financial gain, 2) protected, kept unencumbered, cared for, and preserved, and 3) all proceeds from the sale of collection items are required to be used to acquire other items for collections. Software is capitalized when acquired while library books are not capitalized because the aggregated cost of books is considered immaterial. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital outlay is recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of capital assets of the business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.
Infrastructure assets consist of the streets network: landscaped medians, roadways, right of ways, bridges, signals, beacons, trails, and trail bridges; and the storm network: easements, drainage pipes, lift stations, bridges, dams, detention basins right of ways, and arroyo easements right of ways. Streetlights managed by the local electric utility, sidewalks, traffic signs, dirt roads and milling roads are not considered infrastructure.

Capital assets, which are financed by general obligation bonds (to be repaid solely from property tax levies) for use by a proprietary fund, are reported as construction in progress in the government-wide financial statements during construction. The asset, when placed in service, is transferred at historical cost to the proprietary fund as a capital contribution from the City.

Buildings and improvements, infrastructure, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	15- 50 years
Runways and other improvements	15-25 years
General infrastructure assets	35-50 years
Improvements other than buildings and runways	15-20 years
Machinery and equipment	3-13 years

6. *Deferred charges and other assets*

Costs incurred in connection with the issuance of bonds are capitalized and are reported as deferred bond issuance costs. These costs are amortized over the remaining maturity period of the related bond issues under a method that approximates the level interest rate method.

7. *Claims and judgments*

Liabilities for workers' compensation, tort and other claims as of June 30, 2007 were accrued based on actuarial estimates of the City’s self-insurance programs. At June 30, 2007 liabilities were based on a case-by-case evaluation of the probable outcome of claims filed against the City, as well as an estimate of claims incurred but not reported. The long-term portion of the liability is discounted at 3.0% at June 30, 2007, and 5.0% for 2006, over the estimated payment period. Revenues consist primarily of charges to other funds, the amounts of which approximate the cost of claims and other risk management costs arising from the activities of those funds.

8. *Compensated absences*

City employees may accumulate limited amounts of vacation pay that are payable to the employee upon termination or retirement. For governmental funds, expenditures are recognized during the period in which vacation costs become payable from available, expendable resources. A liability for amounts earned but not payable from available, expendable resources is reported in the government-wide financial statements. For proprietary funds, vacation costs are recognized as a liability when incurred.

City employees may also accumulate limited amounts of sick leave that are payable to the employee upon termination or retirement. For governmental funds, expenditures are recognized during the period in which sick leave costs become payable from available, expendable resources. A liability for vested amounts, due to employees meeting the termination or retirement requirements, but not payable from available, expendable resources is reported in the government-wide financial statements. For proprietary funds, accumulated sick leave pay is recognized when vested or taken whichever occurs first.

9. *Deferred revenue*

The City defers revenue from non-exchange transactions. The amount deferred results from the difference between the receivable recognized on an accrual basis and the related revenue recognized on the modified accrual basis. The City also defers revenue on rehabilitation loans, construction loans, economic development loans and special assessments. Revenue is recognized as the receivables are collected. In addition, deferred revenue includes moneys collected for food service and license fees, not yet earned.

10. *Special assessments*

Special assessment receivables are recorded upon approval of the assessment roll by the City Council, and the related revenues, interest, and penalties are recognized when due. City participation revenues are recorded at the time of receipt.

11. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Long-term obligations used to finance proprietary fund capital acquisitions and payable from revenue of proprietary funds are recorded in the applicable proprietary fund. Long-term obligations of governmental funds payable from general revenues of the City and special assessment levies are reported in the government-wide financial statements.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

12. *Net assets*

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as follows:

Investment in capital assets, net of related debt **–** This category reflects the portion of net assets that are associated with capital assets less outstanding capital asset related debt.

Restricted net assets **–** Restricted net assets result from constraints placed on the use of net assets when externally imposed by creditors, grantors, laws and regulations of other governments and imposed by law through constitutional provisions or enabling legislation. The restricted net assets are restricted for debt service, construction, housing and economic development, federal and state funded programs, open space and urban enhancement. The government-wide statement of net assets reports $244,844,703 of restricted net assets, of which $42,275,796 are restricted by enabling legislation.

Unrestricted net assets **–** This category reflects net assets of the City, not restricted for any project or other purpose.

13. *Fund equity reservation and designations*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted. Designations represent tentative managerial plans that are subject to change. The City records reserves to indicate that a portion of fund balance is legally restricted for a specific future use or is not available for appropriation and/or expenditure.

E*ncumbrances* - the estimated amount of unperformed contracts and outstanding purchase orders that will be re-appropriated in the subsequent fiscal year.

Prepaid items - the amount reserved for operating costs paid in advance not available for appropriation.

Land held for resale - the amount of fund balance representing the cost of land held for resale and not available for appropriation and/or expenditure.

Advances to other funds - the amount of advances to other funds not available for appropriation and/or expenditure.

Transfer to capital acquisition fund - the amount of unencumbered fund balance in the False Alarm and Education Fund that is available for transfer to the Capital Acquisition Fund in the ensuing fiscal year.

Acquisition and management of open space land – the fund balance of permanent funds legally restricted for this purpose.

Urban enhancement – the fund balance of permanent funds legally restricted for this purpose.

Debt service – amounts legally restricted for the payment of debt.

Operations – a portion of the fund balance of the General Fund designated by Administrative Instruction No. 2-13-1A (Revised) from expenditure, except by specific appropriation, for the purpose of maintaining existing levels of government services to the public.

Unreserved, undesignated – Amounts, which have not been reserved or designated for any purpose. These funds are available for unrestricted usage by the City.

14. Statement of cash flows

For purposes of the statement of cash flows, all pooled cash and investments (including restricted assets) of the City are considered to be cash equivalents although there are investments with a maturity in excess of three months when purchased because they have the characteristics of demand deposits for each individual fund. Non-pooled investments with original maturities of three months or more are deducted from cash, investments, and accrued interest and changes therein are reported as cash flows from investing activities.

15. Estimated amounts reported in financial statements

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

16. Bond premiums/issuance costs

In governmental fund types, bond premiums and issuance costs are recognized in the current period. Bond premiums are presented, separately as other financing sources.

17. Unbilled revenues

Refuse services are billed on a cycle basis; therefore, amounts for services provided but unbilled as of June 30, 2007 are not included in receivables or revenue of the enterprise fund. Such unbilled amounts are not material to the financial position and results of operations of the Refuse Disposal Fund.

18. Inter-fund transactions

Transactions that would be recorded as revenues, expenditures, or expenses if they involved organizations external to the City are similarly treated when involving other funds of the City. These transactions include charges for administrative services, building rental, risk management services, vehicle maintenance and motor pool services, inventory and office services, retirees' health care, and payments in lieu of taxes. Other authorized transfers between funds are recorded as operating transfers and are included in the determination of the results of operations in the governmental, proprietary, and fiduciary funds.

19. New accounting pronouncements

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2007.

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.*

The City will implement the new GASB pronouncements in the fiscal year no later than the required effective date. The City believes that the above listed new GASB pronouncements will not have a significant financial impact to the City or in issuing its financial statements.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government – wide statement of net assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets –governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds and bond anticipation notes payable	$	(164,495,000)
Sales tax revenue bonds and notes payable		(132,445,000)
Special assessment debt with governmental commitment		(3,738,004)
Deferred refunding costs		4,902,061
Unamortized bond premiums		1,666,610
Unamortized bond discounts		(5,593,573)
Compensated absences		(29,929,799)
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	$	(329,632,705)

Unamortized bond issue costs	$	1,397,745
Accrued rebatable arbitrage payable reported as deferred credit		(1,539,050)
	$	(141,305)

Some of the City's taxes will be collected after year-end and amounts due on real estate contracts are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds. The amounts are:

Gross receipts tax	$ 31,871,102
Property taxes	2,502,824
Gasoline taxes	645,723
Cigarette taxes	55,383
Amounts due on real estate contracts	1,024,886
Net adjustment to increase fund balance – total	
Governmental funds to arrive at net assets – governmental activities	$ 36,099,918

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that, "Governmental funds report capital outlay 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." The details of this difference are as follows:

Capital additions depreciated and non-depreciated	$ 199,267,234
Construction work in process and other reclassified to fixed assets	(34,515,869)
Depreciation expense	(61,984,005)
Net gain (loss) on disposition of capital assets	(1,274,704)
Net adjustment to decrease net changes in fund balances – total	
Governmental funds to arrive at changes in net assets of Governmental activities	$ 101,492,656

Another element of that reconciliation states that, "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds." Neither transaction, however, has any effect on net assets. The details of this difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	$ (36,000,000)
Deferred refunding costs	(196,214)
Bond discount	(154,691)
Bond premium	1,836,758
Principal repayments:	
General obligation bonds	71,270,000
Gross receipts tax revenue bonds	4,470,000
Gross receipts tax revenue note	490,000
Special assessment district bonds and notes	4,170,357
Net adjustment to decrease net changes in fund balances –	
Total governmental funds to arrive at changes in net assets of governmental activities	$ 45,886,210

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this difference are as follows:

Compensated absences	$	684,819
Rebatable arbitrage		462,349
Amortization of bond discounts		157,622
Net adjustment to decrease net changes in fund balances – Total governmental funds to arrive at changes in net assets of governmental activities	$	1,304,790

Under the modified accrual basis of accounting used in the governmental funds, revenue is recognized when available to provide financing resources for the current period. Likewise, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, which is presented on the accrual basis, revenues and related receivable and expenses and related liabilities are reported regardless of when financial resources are available.

Gross receipts taxes	$	(3,856,294)
Property taxes		(396,217)
Gasoline taxes		164,386
Cigarette taxes		(8,910)
Collections on real estate contracts, net of deferred gains		(786,851)
Net adjustment to decrease net changes in fund balances – total Governmental funds to arrive at changes in net assets of Governmental activities	$	(4,883,886)

III. Stewardship, compliance and accountability

A. Budgetary information

Budgetary information Annual budgets for the General Fund, the following Special Revenue Funds: Community Development; Fire; Recreation; Lodger's Tax; Hospitality Tax; Culture and Recreation Projects; Open and Ethical Elections; Albuquerque Biological Park; City Housing; Air Quality; Heart Ordinance; Corrections and Detention; Operating Grants; Metropolitan Redevelopment; Housing and Neighborhood Economic Development; Law Enforcement Protection; Gas Tax Road; City/County Facilities; Plaza Del Sol; Acquisition and Management of Open Space Expenditures; and Urban Enhancement Expenditures; and certain Debt Service Funds are departmental appropriations by program, the level at which expenditures may not legally exceed appropriations. The annual budget approved by the City Council also includes proprietary funds. The budgetary data is prepared consistent with the basis of accounting described in Note I. C. As required by the home rule City charter, the annual budget is formulated by the Mayor and submitted to the City Council by April 1 for the fiscal year commencing July 1. When there is a proposal for a change in rates or fees, City ordinances provide that the Mayor shall submit the operating budget for the Refuse Disposal, Golf, and Aviation enterprise funds to the City Council no later than March 1. Public hearings are conducted to obtain citizen comments on the proposed budget. By June 1, the budget is legally adopted through passage of an appropriation resolution by the City Council.

The Mayor has the authority to change individual program appropriations by the lesser of five percent of the original appropriation or $100,000, provided that the total amount of appropriations for the fund as approved by the City Council does not change. Approved appropriations lapse at the end of the fiscal year to the extent that they have not been expended or encumbered except any appropriation continued by ordinance. During fiscal year 2007, several supplemental appropriations were necessary. An annual budget, which is not legally adopted, for the City of Albuquerque Housing Authority is prepared in accordance with the Department of Housing and Urban Development regulations on an accrual basis and includes both operating and debt service activities as a single budget. The Special Assessments Debt Service Fund spending is controlled primarily through bond indenture provisions and the Capital Projects Funds do not have annual budgets.

B. Deficit fund equity

Capital Projects Funds

While the total unreserved fund balance is not in a deficit position, deficit unreserved fund balances for certain purposes result because capital expenditures and encumbrances are made in anticipation of additional revenues and transfers. The resulting deficit fund balance of various purposes at June 30, 2007 is as follows:

Capital Acquisition Fund		
Community Services Building	$	(147,506)
Rio Grande Zoo		(722,535)
Storm Sewer		(2,364,020)
Miscellaneous Capital Projects		(839,231)
	$	(4,073,292)
Quality of Life Fund		
Balloon Science Museum	$	(65,163)
Quarter Cent Storm Drain		(109)
Rio Grande Bosque RR		(260)
	$	(65,532)
Transportation Infrastructure Tax Fund		
Maintenance deficit	$	(33,719,001)
Streets		62,928,605
Trails		5,542,003
Transit		6,277,289
Unallocated deficit		(739,205)
Total unreserved fund balance	$	40,289,691

IV. Detailed notes on all funds

A. Cash and investments

The total cash, investments, accrued interest and cash with fiscal agents, net of cash overdrafts of the City at June 30, 2007, consist of the following:

(In thousands of dollars)

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	Component Unit
Cash, investments accrued interest and cash with fiscal agents, net of unamortized discounts and premiums:					
Repurchase agreements	$ 353,985	$ 140,173	$ 11,348	$ 505,506	$ 77,516
Obligations of federal agencies or instrumentalities	76,554	28,747	2,454	107,755	16,764
State of New Mexico investment council	29,788	-	-	29,788	-
State of New Mexico local government investment pool	-	7,552	-	7,552	-
Held in trust by New Mexico Bank and Trust U.S Treasury Fund	-	-	-	-	-
Held in trust by NM FA in State of New Mexico local government investment pool	-	-	-	-	505
Held in trust by Wells Fargo Bank in U.S. Treasury Fun	112	2,411	-	2,523	-
Held in trust by Bank of Albuquerque in U.S. Treasury Fund	392	-	-	392	-
Total investments	460,831	178,883	13,802	653,516	94,785
Certificate of deposit	-	-	-	-	-
Bank accounts at book balances	(8,942)	9,517	(1,264)	(689)	19,570
Total bank balances	(8,942)	9,517	(1,264)	(689)	19,570
Accrued interest receivable	813	305	26	1,144	177
Imprest cash funds	279	16	-	295	-
Total other	1,092	321	26	1,439	177
Total cash, investments, accrued interest and cash with fiscal agents	$ 452,981	$ 188,721	$ 12,564	$ 654,266	$ 114,532
Current cash, investments and accrued interest:					
Cash, investments and accrued interest	$ 317,947	$ 35,215	$ 10,789	$ 363,951	$ 30,825
Cash, investments with fiscal agents	85,674	44,640	-	130,314	39,246
Cash held by others	-	1,765	-	1,765	-
Total current cash, investments and accrued interest	403,621	81,620	10,789	496,030	70,071
Restricted noncurrent cash, investments and accrued interest:					
Cash, investments and accrued interest	49,360	107,101	1,775	158,236	43,956
Cash and investments with fiscal agents	-	-	-	-	505
Total noncurrent cash, investments, accrued interest	49,360	107,101	1,775	158,236	44,461
Total cash, investments, accrued interest and cash with fiscal agents	$ 452,981	$ 188,721	$ 12,564	$ 654,266	$ 114,532

Custodial credit risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's funds may not be returned to it. The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2007, $1,669,000 of the City's bank balances of $6,386,066 was exposed to custodial credit risk. It is the Bank of America's policy to only collateralize collected balances, not available balances. The collateral is held in the City's name by Bank of New York, with whom the City has entered into a tri-party collateral agreement through Bank of America.

Custodial credit risk – Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that all security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment basis. The investment policy further requires that all collateral securities held by a third party custodian, designated by the City Treasurer, shall be held in the City's name and evidenced by a safekeeping receipt or Federal Reserve book-entry reporting.

Credit risk. Credit risk is the risk that in the event an issuer or other counterparty to an investment does not fulfill its obligations, the City will not be able to recover the value of its principal. As a home rule city, the City's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The City's Investment Committee annually reviews its asset allocation strategies and guidelines for the percentage of its total portfolio that may be invested in securities other than repurchase agreements, U.S. Treasury bills and notes or insured/collateralized certificates of deposit. The guidelines are reviewed considering the probability of market and default risk in various investments sectors as part of its allocation evaluation. The City's investment policy describes permitted investments in Section 7 and describes prohibited investments in Section 8. Among permitted investments, the investment policy requires that 1) repurchase agreements have a collateralized value of 102% of the par value of the agreement 2) certificates of deposit with local banks be fully insured and 3) brokered certificates of deposit be 100% collateralized. Investments in direct obligations of the U.S. Treasury are permitted as are securities of most U.S. Government agencies with the exception of Government National Mortgage Association securities. Other prohibited investments are 1) Collateralized Mortgage Obligations 2) inverse floaters and 3) reverse repurchase agreements. At June 30, 2007 all of the City's investments in its internal investment pool other than overnight repurchase agreements were invested with U.S. Government agencies whose debt was rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The City's non-pooled investments in the State of New Mexico Investment Council Core Bond Fund and the State of New Mexico Local Government Investment Pool were not rated.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's investment policy states the City will develop diversification strategies to avoid incurring concentration risk. The following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single security type or with a single financial institution or at a single maturity. All of the City's internal investment pool other than repurchase agreements is in debt securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank. These investments are 19.97%, 60.06% and 19.97% respectively of the non-repurchase agreement portfolio and 3.55%, 10.69% and 3.55% of the total portfolio.

At June 30, 2007 the City held investments issued by three Government Sponsored Entities (GSEs), as well as overnight repurchase agreements (repos). Summarized information concerning the GSE investments is as follows:

U.S. Agency Investments (summarized by GSE)	Wtd. Avg. Days to Maturity	Weighted Average Days to Call	Standard & Poors Rating	Moody's Rating
Federal Home Loan Banks	608	82	AAA	Aaa
Federal National Mortgage Association	492	–	AAA	Aaa
Federal Home Loan Mortgage Corporation	440	–	AAA	Aaa

Repo holdings (collateral) consisted of U.S. Agency securities permitted under Section 6-10-10 N.M.S.A. 1978, and by the City's investment policy.

At June 30, 2007, the City had funds invested in the State LGIP. As a government investment pool, the LGIP is exempt from disclosing concentration risk. Summarized information regarding the pool's credit risk and interest rate risk is as follows:

New MexiGROW LGIP	AAAm rated	$7,551,573	38-day WAM

The City's investments held outside of its internal investment pool in the State of New Mexico Investment Council Core Bond Pool were not rated.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments. The City's investment policy limits the City's exposure to interest rate risk by requiring that no less than 80% of the funds invested in the internal investment pool or in other discretionary funds be in maturities of no more than three years from date of purchase. No more than 20% of the funds may be invested in maturities of up to five years. Investment of non-discretionary assets, including funds to be held in trust, may be committed to maturities up to ten years from the date of purchase. The weighted average maturity of the investments in the internal investment pool at June 30, 2007 was 100.11 days. The weighted average days to call of the same portfolio was 8.71 days.

Pledged Collateral by Bank. The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). The pledged collateral by bank (in thousands) at June 30, 2007 consists of the following:

	First Community (Water)	First Community (Housing)	Bank of America	Wells Fargo Bank	Compass Bank	NM Bank & Trust
Total amount on deposit	$ 1,164	$ 315	$ 1,835	$ 2,549	$ 5	$ 518
Less FDIC coverage	100	100	100	200	5	100
Total uninsured public funds	1,064	215	1,735	2,349	-	418
50% collateral requirement	532	108	867	1,175	-	209
Pledged securities, fair value	1,509	918	88	2,388	-	396
Pledged in excess of Requirement	$ 977	$ 810	$ (779)	$ 1,213	$ -	$ 187

B. Receivables

Taxes receivable at June 30, 2007 are from the following sources:

Gross receipts tax	$ 61,218,972
Property tax	4,005,121
Lodgers tax	1,940,869
Hospitality tax	384,658
Other taxes	2,471,994
Total	$ 70,021,614

The property taxes above include a receivable of $2,864,619 in the General Obligation Debt Service Fund and $1,140,502 in the General Fund.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied each year on July 1 on the taxable valuation of property located in the City as of the preceding January 1. The Bernalillo County Assessor and the State of New Mexico Department of Taxation and Revenue determine the taxable valuations for the various classes of property at one-third of assessed valuation. Property in the City for the fiscal year 2007 tax levy had a taxable value of $9,858,168,788. The State Constitution limits the rate of taxes for operating purposes for all taxing jurisdictions to 20 mills ($20 per $1000 assessed valuation), of which the City's portion, by state regulation, is limited to 7.650 mills for operations and 12.0 mills for debt service. The general obligation bond debt service levy for Tax Year 2006 (Fiscal Year 2007) is 7.976 mills and the operational levy is 3.012 mills on residential property and 3.544 mills on commercial property. Taxes are payable in two equal installments on November 10 and April 10 and become delinquent after 30 days.

Accounts receivable and Allowance for uncollectible accounts

Included on page 24, "Statement of Net Assets", are balances of receivables which are reported net of allowances for uncollectible accounts. The amounts of these receivables and allowances as of June 30, 2007, are as follows:

Current Portion of Accounts and Notes Receivable:

	Total Receivables	Allowance for Uncollectible Accounts	Net Receivables
Governmental activities:			
Major funds:			
General Fund	$ 1,392,470	$ 365,327	$ 1,027,143
Capital Acquisition Fund	(20,983)	18,902	(39,885)
Nonmajor government activity funds	1,655,303	1,385,281	270,022
Internal Service Funds	56,317	46,668	9,649
Total governmental activities	$ 3,083,107	$ 1,816,178	$ 1,266,929
Business-type activities:			
Major funds:			
Airport	$ 4,457,011	$ 1,172,405	$ 3,284,606
Refuse Disposal	4,002,830	286,760	3,716,070
Transit	615,621	15,646	599,975
Nonmajor enterprise funds	1,834,361	834,878	999,483
Total business-type activities	$ 10,909,823	$ 2,309,689	$ 8,600,134

Long-term Accounts and Notes Receivable:

	Total Receivables	Allowance for Uncollectible Accounts	Net Receivables
Governmental activities:			
Nonmajor funds:			
Rehabilitation loans	$ 2,550,406	$ -	$ 2,550,406
Notes receivable	15,272	-	15,272
Developer loans	4,528,770	-	4,528,770
Special assessments debt service	6,382,758	-	6,382,758
Real estate contracts	1,313,945	-	1,313,945
Total governmental activities	$ 14,791,151	$ -	$ 14,791,151
Business-type activities:			
Nonmajor funds:			
Developer loans	$ 2,356,938	$ 114,562	$ 2,242,376
Total business-type activity funds	$ 2,356,938	$ 114,562	$ 2,242,376

C. Capital assets

Capital asset activity for the year ended June 30, 2007, was as follows:

Primary Government

Governmental Activities	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Assets not being depreciated:				
Land	$ 239,129,733	$ 5,540,430	$ -	$ 244,670,163
Construction work in progress	408,906,596	99,631,121	34,075,184	474,462,533
Right of way	1,042,691,667	-	-	1,042,691,667
Other	983,063	640,544	440,685	1,182,922
	1,691,711,059	105,812,095	34,515,869	1,763,007,285
Assets being depreciated:				
Buildings	198,892,628	18,920,931	-	217,813,559
Infrastructure	1,210,316,774	33,433,300	-	1,243,750,074
Improvements	351,495,257	25,283,008	-	376,778,265
Equipment	134,761,048	15,817,899	12,474,157	138,104,790
	1,895,465,707	93,455,138	12,474,157	1,976,446,688
Less accumulated depreciation:				
Buildings	45,740,408	5,206,805	-	50,947,213
Infrastructure	424,572,508	29,012,006	-	453,584,514
Improvements	194,017,592	11,727,675	-	205,745,267
Equipment	92,677,513	16,037,519	11,199,453	97,515,579
	757,008,021	61,984,005	11,199,453	807,792,573
Capital assets being depreciated, net	1,138,457,686	31,471,133	1,274,704	1,168,654,115
Total capital assets, net	$ 2,830,168,745	$ 137,283,228	$ 35,790,573	$ 2,931,661,400

* Includes Internal Service Funds

In Fiscal year 2007, $29 million of street infrastructure was placed into service along with $3.7 million of storm infrastructure, $3.4 million for parks and recreation community centers and swimming pools, $17.4 million of parks and recreation improvements. The construction work in progress consists of expenditures made in connection with the Capital Acquisition, Infrastructure Tax, and Quality of Life Funds. The construction work in progress increased by $73 million due to $41.6 million in street improvements $ 10 million in storm sewers and $ 19.8 million in park development. Reductions in work in progress are comprised of $16 million in streets, $3.6 million in storm sewers and $12.9 million in park development.

Business-type activities

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Assets not being depreciated:				
Land	$ 53,379,766	$ 719,563	$ -	$ 54,099,329
Land and improvements acquired from the U.S Air Force	7,630,077	-	-	7,630,077
Other	748,000	207,200	-	955,200
Construction work in progress	21,575,838	34,358,470	34,084,934	21,849,374
Total assets, not being depreciated	83,333,681	35,285,233	34,084,934	84,533,980
Assets being depreciated:				
Buildings and improvements	407,348,120	15,491,031	244	422,838,907
Runways and improvements	249,880,802	10,587,740	-	260,468,542
Infrastructure	2,508,663	-	-	2,508,663
Improvements other than buildings and runways	147,310,688	8,231,401	-	155,542,089
Equipment	137,755,148	8,655,974	34,024,780	112,386,342
Total assets, being depreciated	944,803,421	42,966,146	34,025,024	953,744,543
Less accumulated depreciation:				
Buildings and improvements	168,419,284	12,296,038	817,498	179,897,824
Runways and improvements	160,309,709	10,915,217	332,160	170,892,766
Infrastructure	37,630	75,260	-	112,890
Improvements other than buildings and runways	78,010,236	8,223,085	-	86,233,321
Equipment	94,997,756	11,130,296	29,485,211	76,642,841
Total accumulated depreciation	501,774,615	42,639,896	30,634,869	513,779,642
Capital assets being depreciated, net	443,028,806	326,250	3,390,155	439,964,901
Total capital assets, net	$ 526,362,487	$ 35,611,483	$ 37,475,089	$ 524,498,881

In 2007, the land addition in the Aviation Fund is for the Santa Fe airport hangar. Additions to buildings/improvements for the Aviation Fund include expansion of and improvements to the Sunport terminal ($2.0 million); improvements to Double Eagle II Airport buildings ($1.7 million); and the extension of University Blvd ($2.9 million). The Transit Fund had improvements to various transit facilities ($1.3 million). The additions to runways were for the Aviation Fund replacement of terminal apron ($10 million). The additions to equipment were to the Transit Fund for buses and vans ($5.7 million); the Refuse Fund for heavy equipment and refuse disposal vehicles ($0.8 million) and the Aviation Fund for heavy equipment for terminal apron maintenance ($0.6 million).

The construction work in progress decreased by $.3 million. The construction work in progress consists of expenditures made in connection with the Aviation Fund, Golf Fund, Refuse Disposal Fund, Transit Fund, and the Housing Authority Fund. Costs of $34 million associated with projects were completed and are listed in the appropriate categories in the above paragraph.

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:		
General government	$	2,591,873
Public Safety:		
Corrections		86,907
Fire protection		3,856,632
Police protection		8,154,322
Culture and recreation		14,529,621
Public works		189,345
Highways and streets		15,639,157
Health		822,283
Human services		1,719,918
Municipal Development		14,107,549
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis based on their usage of the assets		286,398
Total depreciation expense – governmental activities	$	61,984,005
Business-type activities:		
Major funds:		
Airport	$	25,469,172
Refuse Disposal		6,016,991
Transit		6,207,574
Nonmajor funds:		4,946,161
Total depreciation expense – business-type activities	$	42,639,898

Capitalized interest

Changes to the capital assets for the business-type activities for 2007 include the following amounts of capitalized interest:

	Total Interest	Interest Related to Tax-Exempt Borrowing	Net
Interest expense	$ 15,125,520	$ 4,350,098	$ 10,775,422
Interest income	7,310,343	3,287,812	4,022,531
Capitalized interest		$ 1,062,286	

Discretely Presented Component Unit

Capital asset activity of the Authority for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Assets not being depreciated:				
Land	$ 23,181,433	$ 50,630	$ -	$ 23,232,063
Construction work in progress	179,561,894	184,019,952	39,411,841	324,170,005
Total assets not being depreciated	202,743,327	184,070,582	39,411,841	347,402,068
Assets being depreciated:				
Buildings	2,210,836	-	-	2,210,836
Improve. other than buildings	1,527,326,790	78,747,801	-	1,606,074,591
Equipment	46,648,479	5,148,504	486,642	51,310,341
Total assets being depreciated	1,576,186,105	83,896,305	486,642	1,659,595,768
Less accumulated depreciation:				
Buildings	1,474,809	44,217	-	1,519,026
Improve.other than buildings	768,436,456	51,757,569	-	820,194,025
Equipment	20,483,457	4,124,091	416,890	24,190,658
Total accumulated depreciation	790,394,722	55,925,877	416,890	845,903,709
Capital assets being depreciated, net	785,791,383	27,970,428	69,752	813,692,059
Total capital assets, net	$ 988,534,710	$ 212,041,010	$ 39,481,593	$ 1,161,094,127

Changes to capital assets of the Authority for the fiscal year ended June 30, 2007, include the following amounts of capitalized interest:

	Total Interest	Interest Related to Tax-Exempt Borrowing	Net
Interest expense	$ 23,557,031	$ 7,668,347	$ 15,888,684
Interest income	12,464,361	3,528,058	8,936,303
Capitalized interest		$ 4,140289	

D. Interfund receivables, payables, and transfers

The interfund receivable and payable accounts have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2007, consists of the following:

	Due from other funds	Due to other funds
Major governmental funds:		
General Fund	$ 2,247,080	$ 1,025,055
Nonmajor governmental funds	-	813,575
Nonmajor proprietary funds	-	1,433,505
Internal service funds	1,025,055	-
Total	$ 3,272,135	$ 3,272,135

Interfund advances not expected to be repaid within one year are to be repaid from revenues or proceeds from the sale of assets are as follows as of June 30, 2007:

Receivable Fund	Payable Fund	Amount
Risk Management Fund	Capital Acquisition Fund	$ 1,149,000
Risk Management Fund	Refuse Disposal Fund	47,808
Nonmajor governmental fund*	Nonmajor proprietary fund*	18,200,000
Total advances		$ 19,396,808

* Revenue bonds payable solely from gross receipts tax revenues were issued in fiscal year 2000. The proceeds of these bonds were advanced by the Sales Tax Refunding Debt Service Fund to the Parking Facilities Fund and are being used to construct, acquire or improve capital assets.

Interfund transfers for the year ended June 30, 2007, were as follows:

From	To		
General Fund	Capital Acquisition Fund	$	18,808,000
General Fund	Refuse Disposal Fund		800,000
General Fund	Transit Fund		22,815,000
General Fund	Nonmajor Proprietary Funds		1,883,000
General Fund	Nonmajor Governmental Funds		14,061,482
Capital Acquisition Fund	Capital Acquisition Fund		2,422,435
Capital Acquisition Fund	Transit Fund		877,458
Refuse Disposal Fund	General Fund		2,100,530
Transit Fund	General Fund		291,676
Nonmajor Governmental Funds	Capital Acquisition Fund		1,796,882
Nonmajor Governmental Funds	Transit Fund		7,386,650
Nonmajor Governmental Funds	General Fund		866,771
Nonmajor Governmental Funds	Nonmajor Governmental Funds		9,860,866
Nonmajor Proprietary Funds	General Fund		259,842
Nonmajor Proprietary Funds	Nonmajor Governmental Funds		47,133
Internal Service Funds	General Fund		269,000
Total transfers		$	84,546,725

		Transfers In		Transfers Out
"Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Funds"	$	81,578,544	$	50,784,617
"Statement of Revenues, Expenses, and Changes in Net Assets – All Proprietary Funds"				
Enterprise funds		2,699,181		33,762,108
Internal Service funds		269,000		-
Total transfers	$	84,546,725	$	84,546,725

The transfers from the General Fund to the other funds are for the purpose of: 1) providing a subsidy for the operations of the Transit and Refuse Disposal funds, 2) providing the City's local match for operating grants from federal and state agencies, 3) funding the purchase of police and fire vehicles, and various construction projects, and 4) transferring resources to debt service funds for the retirement of General Obligations and Sales Tax Refunding bonds.

The transfers to the General Fund from the major and nonmajor enterprise funds are primarily for payments in lieu of taxes.

Other transfers relating to funds within the nonmajor governmental funds type are: 1) for debt retirement and various other purposes, and 2) from permanent funds to the related expenditures governmental special revenue funds. The transfers from the nonmajor governmental fund to the nonmajor proprietary funds are for the transfer of a portion of the Infrastructure Tax Revenues to the Transit fund to be used for improvements to the local bus service.

E. Leases

The City has various lease commitments for real property. The lease commitments are for one to ten years, with most leases being for five years. About half of the leases have renewal options; the others do not. Lease expenses of $562,953 were incurred for the year ended June 30, 2007. Lease commitments for future years are as follows:

Fiscal Year		Amount
2008	$	1,087,872
2009		1,017,230
2010		963,888
2011		841,104
2012		573,861
2012-2017		828,945
Total	$	5,312,900

The Housing Authority has also entered into a lease agreement as lessee for financing the acquisition of equipment and improvements. This lease agreement is treated as a capital lease for accounting purposes and, therefore, has been reported at the present value of the future minimum lease payments as of the inception date in the basic financial statements. At June 30, 2007 the outstanding balance of the capital lease is $847,746. Amortization expense is included with depreciation expense on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

The assets acquired through capital leases are as follows:

Equipment and Improvements	$	847,746
Less: Accumulated amortizations		(81,272)
Total	$	766,474

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2007 are as follows:

Year Ending June 30		Principal and Interest
2008	$	116,842
2009		116,842
2010		116,842
2011		116,842
2012-2015		438,161
Total minimum lease payment		905,529
Less amount representing interest		(139,055)
Present value of minimum lease payments	$	766,474

F. Restricted assets

Restricted assets arise principally from legal restrictions on expenditures of proceeds from general obligations bonds or sales tax revenue bonds in the governmental activities or on expenditures of proceeds from revenue bonds of the enterprise funds. The amount of restricted assets reported in the statement of net assets at June 30, 2007 is as follows:

Primary Government:

Governmental Activities		
Capital Acquisition Fund	$	49,360,233
Business-type activities		
Airport Fund	$	94,114,260
Refuse Disposal Fund		8,260,591
Transit Fund		2,344,326
Non-major Enterprise Funds		8,904,286
Totals	$	113,623,463

Discretely Presented Component Unit:

Albuquerque Bernalillo County Water Utility Authority	$	44,608,511

G. Short-term and long-term obligations

Governmental activities

Bonded obligations of the City consist of various issues of general obligation, revenue, and special assessment bonds. Also included in long-term obligations are a water rights contract, notes payable, claims and judgments, and accrued vacation and sick leave pay. The City has complied with all revenue bond ordinances and bond covenants requirements for maintaining specific reserves for future debt service as of June 30, 2007. All variable rate bonds are callable at 100% after 45 to 60 days notification to bondholders. The changes in the long-term obligations of the governmental activities for the year ended June 30, 2007, are as follows:

	July 1	Increases	Decreases	June 30	Payable in one year
General Obligation Bonds	$ 239,205,000	$ -	$ 39,440,000	$ 199,765,000	$ 35,270,000
Sales Tax Revenue Bonds	136,165,000	-	3,520,000	132,645,000	4,470,000
Sales Tax Revenue Note	5,391,299	-	631,299	4,760,000	490,000
Special Assessment Bonds and Notes With Governmental Commitment	7,674,819	-	2,261,035	5,413,784	-
Accrued vacation and sick leave pay	29,821,900	23,071,925	22,314,397	30,579,428	25,735,108
Accrued claims payable	50,950,991	29,078,498	23,023,053	57,006,436	21,322,550
Deferred credits and other liabilities	1,076,701	462,349		1,539,050	
Less deferred amounts:					
Deferred refunding costs	(5,098,275)	-	(196,214)	(4,902,061)	-
Unamortized bond discounts	(1,821,301)	-	(154,691)	(1,666,610)	-
Unamortized bond premiums	7,430,331	-	1,836,758	5,593,573	-
	470,796,465	52,612,772	92,675,637	430,733,600	87,287,658
Current Portion of	(89,059,899)	-	(1,772,241)	(87,287,658)	-
Long-term obligations	$ 381,736,566	$ 52,612,772	$ 90,903,396	$ 343,445,942	$ 87,287,658

Total interest cost incurred for governmental activities for the year ended June 30, 2007 was $15,785,367, all of which was charged to expense.

Short-term debt activity for governmental activities. On June 30, 2007 the City issued $36,000,000 in general purpose bonds. These bonds were repaid in July 2007.

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Short-term General Obligation Bonds	$37,000,000	$36,000,000	$37,000,000	$36,000,000

General Obligation bonds are direct obligations of the City for which its full faith and credit are pledged and are payable from taxes levied on property located within the City. The sick leave and vacation pay obligations are being liquidated primarily by the following funds: General, Air Quality, Operating Grants, and Gas Tax Road. Limited amounts are being liquidated by other funds. The City's Risk Management Fund (an internal service fund) liquidates all claims payable. General obligation bonds outstanding at June 30, 2007, are as follows:

Issue		Amount	Interest Rate	Final Maturity	Call Provision
February 1, 1998 Storm Sewer	$	3,000,000	5.00%	July 1, 2007	100% beginning July 1, 2005
February 1, 1999 Storm Sewer		4,760,000	4.00/4.05%	July 1, 2008	100% beginning July 1, 2006
August 1, 1999 General Purpose		6,000,000	4.50/4.75%	July 1, 2009	100% beginning July 1, 2007
July 1, 2000 Storm Sewer		4,800,000	5.00%	July 1, 2010	100% beginning July 1, 2008
September 1, 2001 General Purpose		17,040,000	4.00/5.00%	July 1, 2010	100% beginning July 1, 2009
September 1, 2001 Storm Sewer		4,510,000	4.38%	July 1, 2011	100% beginning July 1, 2009
December 1, 2001 Taxable Baseball Stadium		4,000,000	4.00/5.60%	July 1, 2010	Not callable
February 1, 2002 General Purpose		7,900,000	2.50/5.00%	July 1, 2009	Not callable
February 1, 2002 Storm Sewer		5,600,000	4.50%	July 1, 2011	100% beginning July 1, 2010
July 1, 2004 General Purpose		41,895,000	2.50/5.00%	July 1, 2012	100% beginning July 1, 2011
July 1, 2004 Storm Sewer		9,440,000	3.00/4.50%	July 1, 2013	100% beginning July 1, 2011
June 30, 2005 General Purpose		79,245,000	4.00/5.00%	July 1, 2013	Not callable
June 30, 2005 Storm Sewer		11,575,000	4.00/4.25%	July 1, 2014	100% beginning July 1, 2013
June 30, 2007 General Purpose		36,000,000	5.31%	July 1, 2007	Not callable
Total Outstanding	$	235,765,000			

The Constitution of the State of New Mexico limits the amount of general-purpose general obligation bonds that may be issued by a municipality to four percent of the taxable valuation of property located within the City. At June 30, 2007, based on the most recent assessed taxable valuation of $9,858,168,778, the City may issue an additional $127,390,000 of general-purpose general obligation bonds. Included in the general obligation bonds outstanding at June 30, 2007, are Storm Sewer bonds in the amount of $43,685,000 that are not subject to the legal debt limit.

Sales Tax Revenue Bonds and Notes of the City are secured by a pledge of gross receipts tax (sales tax) revenues. In addition, the 1996 Refunding issue is secured by limited amounts of parking and airport revenues. Sales tax revenue bonds and notes outstanding at June 30, 2007, are as follows:

Issue		Amount	Interest Rate	Final Maturity	Call Provision
November 18, 1991 B Refunding and Improvement	$	3,970,000	6.60/7.10%	July 1, 2019	103% beginning July 1, 2011
May 1, 1992 Refunding		1,325,000	6.00/6.30%	July 1, 2007	102% beginning July 1, 2002
October 15, 1996 Refunding		2,995,000	5.00%	July 1, 2011	100% beginning July 1, 2007
January 15, 1999 A Refunding		4,105,000	3.75/5.00%	July 1, 2015	100% beginning July 1, 2009
January 15, 1999 B Refunding		12,235,000	4.60/5.00%	July 1, 2025	100% beginning July 1, 2009
March 15, 1999 C Refunding		27,130,000	4.75/5.25%	July 1, 2022	100% beginning July 1, 2009
January 20, 2000 A		20,300,000	Adjustable	July 1, 2014	100% beginning January 20, 2000
October 6, 2004 A Refunding		31,965,000	4.75%	July 1, 2037	100% beginning July 1, 2014
October 6, 2004 B Refunding		28,620,000	2.39/4.90%	July 1, 2014	100% beginning October 6, 2004
September 9, 2004 Note		4,760,000	1.26/3.67%	July 1, 2014	None
Total Outstanding	$	137,405,000			

Special Assessment Debt and Notes Payable with Governmental Commitment are secured by pledges of revenues from special assessments levied. The outstanding bonds and notes of certain water and sewer improvement districts are also secured by surplus revenues of the Albuquerque Bernalillo County Water Utility Authority (a component unit), subordinate to bonds and obligations payable solely or primarily from such revenues. Outstanding bonds and notes of paving and sidewalk improvement districts are additionally secured by pledges of one-half of motor fuel tax revenues of the City, to be used only in the event that revenues from assessments and interest levied are not sufficient to meet debt service requirements. All Special Assessment debt is callable at 100% on any semi-annual interest payment date. Special Assessment debt and notes in the amount of $5,413,784 are outstanding at June 30, 2007. Interest rates range from .79% to 5.20%, and maturities extend through July 1, 2014.

Business-type activities of the primary government

The changes in the Business-type activities obligations for the year ended June 30, 2007, are as follows:

	Outstanding July 1	Increases	Decreases	Outstanding June 30	Payable in one year
Revenue bonds	$ 255,970,000	$ -	$ 15,150,000	$ 240,820,000	$ 18,635,000
Loans and notes payable	19,500,698	20,000,000	937,234	38,563,464	1,883,053
Accrued vacation and sick leave pay	5,407,747	4,027,977	4,015,694	5,420,030	4,273,417
Landfill closure costs	1,367,903	99,098	-	1,467,001	-
Less deferred amounts:					
Deferred refunding costs	(4,204,005)	-	(683,555)	(3,520,450)	-
Unamortized bond premiums	1,141,121	-	245,263	895,858	-
Unamortized bond discounts	(218,714)	-	(22,985)	(195,729)	-
	278,964,750	24,127,075	19,641,651	283,450,174	24,791,470
Capitalized leases	847,746	-	81,272	766,474	84,911
Subtotal	279,812,496	24,127,075	19,722,923	284,216,648	24,876,381
Current Portion	(19,869,106)	-	5,007,275	(24,876,381)	-
Business-type activities Long-term obligations	$ 259,943,390	$ 24,127,075	$ 24,730,198	$ 259,340,267	$ 24,876,381

Total interest cost incurred for business-type activities for the year ended June 30, 2007 was $15,125,520, of which $4,350,098 was capitalized and $10,775,422 was charged to expense**.** The sick leave and vacation pay obligations are being liquidated primarily by the following funds: Airport, Refuse Disposal, Housing Authority, Golf Course, Transit, and Parking Facilities.

Airport Revenue Bonds are secured by pledges of net revenues of the airport. Airport Revenue bonds outstanding at June 30, 2007, are as follows:

Issue	Amount	Interest Rate	Final Maturity	Call Provision
May 3, 1995 Refunding	$ 40,700,000	a*	July 1, 2014	100% on any interest payment date
April 3, 1997 Refunding	24,505,000	6.25/6.75%	July 1, 2018	102% beginning July 1, 2007
September 1, 1998 Refunding	33,810,000	3.80/5.00%	July 1, 2019	100% beginning July 1, 2008
May 4, 2000 A	5,500,000	a	July 1, 2020	100% on any interest payment date
May 4, 2000 B	18,100,000	a	July 1, 2020	100% on any interest payment date
August 1, 2001	33,280,000	3.20/4.75%	July 1, 2016	100% beginning July 1, 2012
March 23, 2004 A	19,175,000	1.63/5.11%	July 1, 2018	100% beginning July 1, 2005
March 23, 2004 B	30,000,000	2.0/4.5%	July 1, 2024	100% beginning July 1, 2007
Total Outstanding	205,070,000			
Deferred refunding cost	(3,471,216)			
Unamortized premiums/discounts	574,032			
	$ 202,172,816			

a – adjustable weekly

* In connection with the City's Subordinate Series 1995 Bonds relating to the Airport, the City entered into an Interest Rate Swap Agreement (the "Exchange Agreement") dated as of October 1, 1992, with AIG Financial Products Corporation ("AIG-FP"). Under the Exchange Agreement, the City is obligated to pay interest at the fixed interest rate of 6.685% per annum and AIG-FP is obligated to make reciprocal floating rate payments equal to the interest rate on the Subordinate Series 1995 Bonds, subject to certain conditions. Arrangements made in respect of the Exchange Agreement do not alter the City's obligation to pay principal of and interest on the Subordinate Series 1995 Bonds from net revenues of the Airport and other amounts pledged. The Exchange Agreement does not provide a source of security or other credit for the Subordinate Series 1995 Bonds. The City's obligations under the Exchange Agreement to make monthly fixed rate of payments to AIG-FP are on a parity with the City's obligations to pay principal of and interest on the Subordinate Series 1995 Bonds. Under certain limited circumstances, the Exchange Agreement may be terminated prior to maturity of the Subordinate Series 1995 Bonds. If the Exchange Agreement is terminated under certain market conditions, the City may owe a termination payment to AIG-FP payable from net revenues of the Airport. As of June 30, 2007, the estimated mark-to-market value of the Exchange Agreement is as follows:

Ref No.	Trade Date	Maturity Date	Notional	With Accruals	Without Accruals**
57927	10/30/92	07/02/14	$ 40,700,000	$ 4,217,238	$ 4,127,627

** The estimated mark-to-market values should not be taken as the price or an indication of the price at which a firm would be prepared to unwind these types of Exchange Agreements or to transact similar types of trades.

The Apartments Revenue Bonds are secured by pledges of net revenues of the apartments. On July 20, 2000, the City, pursuant to a mortgage and indenture of trust, issued its Affordable Housing Projects Refunding Revenue Bonds Series 2000 (Series 2000) in the aggregate principal amount of $15,080,000 for the purpose of refunding and defeasing three bond issues of the City; 1) its Multifamily Mortgage Revenue Bonds (Beach Apartments Project), Series 1991, 2) its Multifamily Mortgage Revenue Bonds (Manzano Vista, formerly Dorado Village Apartments Project), Series 1994, and 3) its Affordable Housing Project/Gross Receipts Tax Subordinate Lien Revenue Bonds, Series 1996. The Series 2000 bonds consist of debt issued by three City owned trusts; Beach, Bluewater Village and Manzano Vista Apartments. The debt constitutes a limited obligation of the City and is payable solely from the resources of these trusts. The respective facilities and the revenues derived from these facilities are pledged for the repayment of the bonds. The mortgage and indenture of trust contain significant requirements for annual debt service and use of project revenues and resources. Required funds include escrow and expense funds, a debt service fund, use of project reserve funds (debt service, retained earnings coverage and sinking fund installment accounts) and restricted property reserve funds (rehabilitation, renovation, repair and replacement accounts). The Series 2000 bonds mature in staggered amounts beginning July 1, 2001 with final payment due July 1, 2030 and bear a variable interest rate based upon similar tax free obligations (BMA index). At the option of the City, interest is paid on market rates for either daily, weekly, short term, during the year ended, or long-term interest rate periods. Based on interest rate periods, interest is paid no less than monthly or in the case of Long-term periods paid semi annually each July and January. At June 30, 2007 and 2006 interest was being paid monthly. The average interest rate on the Series 2000 bonds for the years ended June 30, 2007 and 2006 was 3.94% and 2.88% respectively. The City has executed a standby bond purchase agreement, which expires July 20, 2014, to provide a liquid facility for the potential repurchase of bonds at the option of the bond owner (at par) as allowed under the terms of the mortgage and indenture of trust. The City has contracted with a remarketing agent to resell bonds purchased pursuant to the standby bond purchase agreement. The Series 2000 bonds are subject to optional and mandatory redemptions generally at par, unless Long-term rates are in effect, as required by the mortgage and indenture of trust commencing July 1, 2001. The Apartments debt in the amount of $12,880,000 is outstanding at June 30, 2007 and maturities extend through July 1, 2030.

Golf Course Revenue Bonds are secured by a pledge of net golf course revenues and a pledge of revenues received by the City from gross receipts tax revenues. Golf Course Revenue bonds outstanding at June 30, 2007 are as follows:

Issue		Amount	Interest Rate	Final Maturity	Call Provision
February 1, 2001	$	1,425,000	5.70/6.70%	July 1, 2011	100% beginning July 1, 2007
Unamortized discounts		(2,028)			
	$	1,422,972			

Refuse Disposal Revenue Bonds. are secured by a pledge of net revenues from refuse disposal operations. Refuse Disposal Revenue Bonds outstanding at June 30, 2007, are as follows:

Issue		Amount	Interest Rate	Final Maturity	Call Provision
July 1, 1995	$	4,815,000	4.90/5.30%	July 1, 2009	Not callable
February 1, 1998		5,580,000	4.20/5.00%	July 1, 2013	100% July 1, 2007
May 1, 2001 A		1,020,000	4.00/4.10%	July 1, 2008	Not callable
May 1, 2001 B		10,030,000	3.63/5.25%	July 1, 2012	Not callable
Total outstanding		21,445,000			
Deferred refunding costs		(49,234)			
Unamortized premiums		128,125			
Net outstanding	$	21,523,891			

Refuse Loans. On July 9, 2004 the City entered into a tax-exempt loan agreement with New Mexico Finance Authority for $5,800,000 with an average interest rate of 2.87%. Final payment is due on July 1, 2014. The balance due on June 30, 2007 was $4,735,627.

Stadium Loans are secured by pledges of net revenues of the Albuquerque baseball stadium. On October 4, 2002, the City entered into a Taxable Stadium Lease loan agreement with the New Mexico Finance Authority in the amount of $6,000,000 with an average interest rate of 5.2%. Final payment is due on July 1, 2026. The balance due on June 30, 2007 was $5,564,549. On December 27, 2002, the City entered into a Taxable Surcharge loan agreement with the New Mexico Finance Authority in the amount of $9,000,000 with an average interest rate of 4.2%. Final payment is due on July 1, 2026. The balance due on June 30, 2007 was $8,263,288. Both loans were used to finance reconstruction of the existing baseball stadium.

Transit Loans. On July 25, 2006 the City entered into a tax-exempt lease-purchase agreement with SunTrust Leasing Corporation for $20,000,000 with an average interest rate of 4.3%. Final payment is due on July 1, 2016. The balance due on June 30, 2007 was $20,000,000.

Housing Authority Debt. The U.S. Housing and Urban Development Department (HUD) guaranteed third party debt consisting of new Housing Authority (HA) revenue bonds and permanent notes, payable to the Federal Financing Bank, were issued to provide for the development and modernization of low rent housing units. These bonds and notes are payable by HUD and secured by annual contributions to the HA. HUD regulations state that the bonds and notes do not constitute a debt of the HA and, accordingly, these have not been reported in the accompanying financial statements. At June 30, 2007, the outstanding balance of the revenue bonds was $705,000 with annual payments required through 2013 and the outstanding balance of the permanent notes was $6,471,012 with annual payments required through 2017.

Summary of Annual Debt Service Requirements. The annual debt service requirements on the obligations outstanding at June 30, 2007 are as follows:

	Governmental activities		Business-type activities	
Year Ending June 30	Principal	Interest	Principal	Interest
2008	$ 76,230,000	$ 14,958,836	$ 20,602,964	$ 12,586,657
2009	36,138,740	13,252,128	21,191,249	11,695,071
2010	34,021,720	11,670,236	25,498,047	10,631,226
2011	33,401,802	10,178,599	25,247,574	9,444,037
2012	31,554,027	8,684,435	25,309,917	8,279,248
2013-2017	76,132,495	28,756,205	110,440,826	24,656,351
2018-2022	27,700,000	19,887,865	35,855,272	6,900,677
2023-2027	12,200,000	14,883,597	14,024,089	1,874,055
2028-2032	18,530,000	10,844,434	1,980,000	78,800
2033-2037	26,300,000	5,193,975	-	-
2038-2042	6,375,000	157,938	-	-
	$ 378,583,784	$ 138,468,248	$ 280,149,938	$ 86,146,122

Arbitrage

Section 148 of the Internal Revenue Code provides generally that bonds issued by a municipality will be "arbitrage bonds", if any portion of the proceeds of the bonds are reasonably expected to be invested in obligations with a yield that is "materially higher" than the yield on the bonds. While municipalities are entitled to earn a certain amount of positive arbitrage during the period the bonds are outstanding, Section 148(f) generally requires that these earnings be paid to the Internal Revenue Service (IRS) at least every five years. As of June 30, 2007, the City has set aside an amount of $1,537,348 in arbitrage interest due the IRS in connection with future filings and payments to the IRS. This amount is reported as a deferred credit in the statement of net assets.

Discretely presented component unit

Revenue bonds of the Albuquerque Bernalillo County Water Utility Authority (Authority) does not constitute debt of the City and are secured by a pledge of net revenues derived from the operations of the Authority's water and sewer system.

The change in the long-term obligations of the Authority for the year ended June 30, 2007, are as follows:

	Outstanding				
	July 1	Increases	Decreases	June 30	Payable in one year
Parity obligations:					
Revenue bonds	$ 285,680,000	133,390,000	36,605,000	382,465,000	30,170,000
Loan agreements – NMFA	136,164,174	-	3,918,434	132,245,740	3,567,462
Subordinate obligations:					-
Loan agreements - NMED	23,547,622	-	3,264,658	20,282,964	380,129
Water rights contract	18,380,662	-	841,359	17,539,303	866,987
Accrued vacation and sick leave payable	2,565,378	2,783,100-	2,626,862	2,721,616	2,177,292
Less deferred amounts:					
Unamort. bond discounts	(2,275,500)	-	(1,499,271)	(776,229)	-
Unamort, bond premiums	6,930,313	3,354,412	1,336,780	8,947,945	-
Bond refunding costs	(1,121474)	-	(355,831)	(765,643)	-
	$ 469,871,175	$ 139,527,512	$ 46,737,991	$ 562,660,696	$ 37,161,870
Current portion of long term obligations	(37,790,196)	-	(628,326)	(37,161,870)	-
Total long term obligations	$ 432,080,979	$ 139,527,512	$ 46,109,665	$ 525,498,826	$ 37,161,870

Authority Revenue Bonds are secured by a pledge of net revenues derived from the operations of the Authority's water and sewer system. In ordinances pursuant to the issuance of these bonds, the Authority has agreed to charge all users of the system such reasonable rates as are sufficient to produce net revenues annually to pay 133% of the annual debt service requirements on all outstanding system obligations. The Authority met those requirements at the end of the fiscal year.

Water Rights Contract

A Water Rights Contract with the United States Government was entered into by the Authority during the fiscal year ended June 30, 1963, to pay a portion of the construction, operation, and maintenance costs of the San Juan Chama diversion project in return for a portion of the water rights resulting from the project. The contract provides for payment in fifty annual installments with final maturity in 2022, and has an interest rate of 3.046%. The amount of the contract outstanding at June 30, 2007, was $17,539,303.

The annual debt service requirements on the revenue bonds, loan agreements and the water rights contract payable outstanding of the Authority at June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest
2008	$ 34,984,578	$ 22,278,071
2009	37,797,259	21,684,966
2010	37,066,268	20,398,700
2011	33,582,382	18,784,111
2012	35,662,687	17,343,857
2013-2017	140,797,887	67,663,385
2018-2022	132,366,616	38,318,158
2023-2027	100,275,330	10,495,150
	$ 552,533,007	$ 216,966,398

H. Demand bonds

Included in long-term debt obligations (Note G.) is $97,480,000 of various demand bonds, the proceeds of which were used to (a) provide funds for certain capital improvements, (b) establish bond reserve funds in accordance with the trust agreements, (c) establish a construction period interest account, and (d) pay costs incurred to issue the bonds. The bonds are included in the summary of annual debt service requirements in Note G assuming retirement in accordance with the related mandatory sinking fund redemption requirements.

The holders of the bonds may demand payment at a price equal to principal plus accrued interest upon delivery to the City's remarketing agent. The remarketing agents are authorized to use their best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. If a remarketing agent is unable to resell any tendered bonds, the City has a non-cancelable "take out" agreement that would be exercised. The City is required to pay an annual fee for the "take out" agreements. The remarketing agent receives a fee for their services.

At June 30, 2007, no amounts were drawn on the "take out" agreements, which are as follows:

<u>Airport Subordinate Lien Adjustable Tender Refunding Revenue Bonds May 3, 1995</u>

Remarketing Agent	Citigroup
Terms of "Take-Out" Agreement:	
Purchaser	Depfa Bank
Method of Purchase	Direct Pay Letter of Credit
Expiration Date	July 1, 2014
Annual Fee	0.25% on the stated amount of the letter of credit
Stated Amount at Time of Issuance	$67,963,699 (Principal outstanding plus 35 days of interest at 15%)
Bonds Outstanding at 6/30/2007	$40,700,000
Annual Debt Service Requirements*	Range of payment is from $5,247,240 to $6,824,955

<u>Airport Subordinate Lien Adjustable Rate Revenue Bonds, Series 2000 A & B May 4, 2000</u>

Remarketing Agent	Dain Rauscher, Inc.
Insured by	Ambac Assurance Inc.
Terms of "Take-Out" Agreement:	
Purchaser	JP Morgan Chase Bank, N.A.
Method of Purchase	Liquidity Facility
Expiration Date	May 3, 2010
Annual Fee	0.175% on the stated amount of the liquidity facility
Stated Amount at Time of Issuance	$47,858,193 (Principal outstanding plus 35 days of interest at 12% for 2000A and 15% for Series 2000B)
Bonds Outstanding at 6/30/2007	$23,600,000
Annual Debt Service Requirements	Range of payment is from $464,090 to $3,563,230

<u>Variable Rate Taxable Gross Receipts Tax Improvement Bonds, Series 2000A, January 20, 2000</u>

Remarketing Agent	Dain Rauscher, Inc.
Insured by	MBIA Insurance Corporation
Terms of "Take-Out" Agreement:	
Purchaser	Bank of America, N.A.
Method of Purchase	Liquidity Facility
Expiration Date	January 20, 2014
Annual Fee	0.14% on the stated amount of the liquidity facility
Stated Amount at Time of Issuance	$27,733,333 (Principal outstanding plus 200 days of interest at 15%)
Bonds Outstanding at 6/30/2007	$20,300,000
Annual Debt Service Requirements*	Range of payment is from $2,568,875 to $3,419,350

<u>Affordable Housing Projects Refunding Revenue Bonds, Series 2000, July 1, 2000</u>

Remarketing Agent	Capmark Securities, Inc.
Insured by	MBIA Insurance Corporation
Terms of "Take-Out" Agreement:	
Purchaser	Bank of America, N.A.
Method of Purchase	Liquidity Facility
Expiration Date	July 20, 2010
Annual Fee	0.125% on the stated amount of the liquidity facility
Stated Amount at Time of Issuance	$16,085,333 (Principal outstanding plus 200 days of interest at 12%)
Bonds Outstanding at 6/30/2007	$12,880,000
Annual Debt Service Requirements*	Range of payment is from $815,200 to $1,412,300

* Based on interest rate in effect on June 30, 2007.

I. Refunded bonds

The City has refunded various bond issues by issuing refunding bonds, the proceeds of which have been placed in escrow and used to purchase securities of the United States Government and related agencies at various interest rates and maturities sufficient to meet all debt service requirements of the refunded debt. These assets are administered by trustees and are restricted to use for retirement of the refunded debt. The liability for the refunded bonds and the related securities and escrow accounts are not included in the accompanying general purpose financial statements as the City satisfied its obligation for payment of the refunded debt upon completion of the refunding transactions. Refunded debt outstanding at June 30, 2007, is as follows:

Sales Tax Revenue Bonds	$53,133,489

J. Conduit bonds

The City has acted from time to time as the issuer of conduit bonds, the proceeds of which have been immediately loaned to a private borrower. Such bonds are payable by the City only from amounts paid to the City by such conduit borrowers pursuant to a lease, loan or other agreement. The City has assigned its rights with respect to such bonds to various trustees that monitor amounts due by the borrowers and pay the principal and interest as due on such conduit bonds from the borrowers' payments. The City has no obligation to repay all or any portion of such bonds in the event the private borrowers fail to make their payments when due.

<u>Industrial Revenue Bonds</u>. As of June 30, 2007, there were sixty-one series of Industrial Revenue Bonds outstanding. The aggregate principal amount payable for the thirty-three series issued after July 1, 1995, is $736.9 million. The aggregate principal amount payable for the twenty-eight series issued prior to July 1, 1995, could not be determined; however, the original amount issued totaled $588.1 million.

<u>Metropolitan Redevelopment Bonds</u>. As of June 30, 2007, there were nine series of Metropolitan Redevelopment Bonds outstanding. The aggregate principal amount payable for the three series issued after July 1, 1995, is $18.5 million. The aggregate principal amount payable for the six series issued prior to July 1, 1995, could not be determined; however, the original amount issued totaled $24.8 million.

K. Segment information

Significant financial data for identifiable activities of major enterprise funds are reported in the statements for proprietary funds in the basic financial statements section. Significant financial data for identifiable activities of nonmajor enterprise funds as of and for the year ended June 30, 2007 is as follows:

(in thousands of dollars)

	Golf Course Fund	Apart-ments Fund	Stadium Fund	Housing Fund	Total
CONDENSED STATEMENT OF NET ASSETS					
Assets:					
Current assets	$ 383	$ 1,811	$ 1,078	$ 15,310	$ 18,582
Restricted assets	81	1,453	54	397	1,985
Capital assets	6,693	13,668	19,440	16,445	56,246
Other assets	19	295	101	-	415
Total assets	7,176	17,227	20,673	32,152	77,228
Liabilities:					
Current liabilities	638	465	929	2,040	4,072
Liabilities payable from restricted assets	-	98	-	356	454
Bonds, notes payable, and other long-term liabilities	1,173	12,580	13,411	682	27,846
Accrued vacation and sick leave	31	-	-	1	32
Advance from other funds	-	-	-	-	-
Total liabilities	1,842	13,143	14,340	3,079	32,404
Net assets:					
Invested in capital assets, net of related debt	5,313	1,384	6,129	15,678	28,504
Net assets restricted for:					
Debt service	28	1,139	54	-	1,221
Construction	29	429	-	-	458
Unrestricted net assets (deficit)	(36)	1,132	150	13,395	14,641
Total net assets	$ 5,334	$ 4,084	$ 6,333	$ 29,073	$ 44,824
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 3,965	$ 2,895	$ 1,645	$ 1,939	$ 10,444
Depreciation	(301)	(643)	(1,064)	(1,661)	(3,669)
Other operating expenses	(4,000)	(2,205)	(673)	(6,590)	(13,468)
Operating income (loss)	(336)	47	(92)	(6,312)	(6,693)
Nonoperating revenues (expenses):					
Investment earnings	25	111	22	602	760
Interest and other debt related expenses	(104)	(560)	(776)	(36)	(1,476)
Federal housing grants	-	-	-	25,822	25,822
Housing assistance payments	-	-	-	(19,361)	(19,361)
Other	(10)	277	-	(167)	100
Capital contributions	-	-	363	-	363
Transfers in	-	-	-	-	-
Transfers out	(87)	(47)	-	-	(134)
Change in net assets	(512)	(172)	(483)	548	(619)
Beginning net assets	5,846	4,256	6,816	28,525	45,443
Ending net assets	$ 5,334	$ 4,084	$ 6,333	$ 29,073	$ 44,824
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ 32	$ 922	$ 1,009	$ (3,331)	$ (1,368)
Noncapital financing activities	(87)	(47)	-	6,462	6,328
Capital and related financing activities	(370)	(1,160)	(1,127)	(946)	(3,603)
Investing activities	25	110	22	602	759
Net increase (decrease)	(400)	(175)	(96)	2,787	2,116
Beginning cash and cash equivalents	779	3,393	939	12,167	17,278
Ending cash and cash equivalents	$ 379	$ 3,218	$ 843	$ 14,954	$ 19,394

The types of services provided by each individual fund are stated below:

Golf Course Fund. This fund charges a greens fee for the use of the City's golf courses.

Apartments Fund. This fund charges rental on housing for persons who meet eligibility requirements based on the level of income earned.

Stadium Fund. This fund provides a baseball stadium that is being used by an AAA class baseball team.

Housing Fund. This fund provides housing or rental assistance to low income City residents.

L. Defined benefit pension plan

Substantially all of the City of Albuquerque's full-time employees participate in a defined benefit contributory retirement plan through the Public Employees' Retirement Association (PERA) of the State of New Mexico, a cost-sharing, multiple-employer public employee retirement plan. PERA provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. A publicly available financial report that includes financial statements and required supplementary financial information for PERA can be obtained by correspondence to Comptroller, Public Employees Retirement Association, P.O. Box 2123, Santa Fe, New Mexico, 87504-2123.

Retirement Eligibility. An employee may retire when 25 or more years of service are attained at any age (20 years for Police and Fire) or under the following age options: age 60 with 20 or more years of service, age 61 with 17 or more years of service, age 62 with 14 or more years of service, age 63 with 11 or more years of service, age 64 with 8 or more years of service, or age 65 with 5 or more years of service.

Retirement Benefits. An employee's retirement benefit is based on a formula that considers credit for years of service multiplied by a percentage factor and is then applied against the employee's average highest three-year salary. Retirement benefits are vested upon reaching five years of service. The plan also provides death and disability benefits. Benefits are established by State statute.

Funding Policy. The contribution requirements of plan members and the City are established under Chapter 10, Article 11 NMSA 1978. Covered employees are required by State statute to contribute a percentage of their gross salary; the City of Albuquerque is also required by State statute to contribute a certain percent depending on the type of plan. The following are the plans covered by the City, contribution requirements, and contributions actually made (in thousands of dollars) for the year ended June 30, 2007:

	Employee		Employer	
Group Covered	Percent	Amount	Percent	Amount
General – Management, Blue Collar and White Collar	13.15%	$ 20,964	9.15%	$ 14,813
General – Bus Drivers	13.15%	976	9.15%	679
General – Other	7.00%	223	7.00%	258
Security/Animal Control	16.65%	163	16.65%	168
Police	16.30%	7,688	18.50%	9,313
Fire	16.30%	5,283	21.25%	6,931
		$ 35,297		$ 32,162

In accordance with Chapter 10, Article 11, Section 5 NMSA 1978, the City has elected to make a percentage of the employee's contributions. The percentage of the employee's contribution paid by the City varies according to the specific plan type. The City's employer contribution to PERA for the years ending June 30, 2007, 2006, and 2005 were $32,162,718, $32,438,165, and $30,299,240 respectively.

If a member's employment is terminated before the member is eligible for any other benefits under PERA, the member may receive a refund of the member's contribution and interest accrued based on rates established biannually by the retirement board. The payroll for employees covered by PERA for the year ended June 30, 2007, $256,972,704; the total payroll for all employees of the City of Albuquerque was $290,194,007.

M. Post employment benefits

In addition to providing pension benefits described in Note L, the City provides certain health care and life insurance benefits for retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach the normal retirement eligibility conditions while working for the City.

Life Insurance Benefits. Life insurance benefits authorized by the City's Merit System Ordinance and Personnel Rules and Regulations for eligible employees are reduced by 50%, not to exceed $25,000, upon retirement. Life insurance benefits are paid through premiums to an insurance company under an indemnity plan. The insurance company has the right to adjust the premiums based on claims paid. Historically, the claims paid in any one year have not exceeded the premiums. The City recognizes the cost of providing the life insurance benefits by charging the insurance premiums to expenditures. The life insurance costs for the fiscal year ended June 30, 2007, were approximately $215,577. The number of retired employees covered under the life insurance benefit was 3,516 at June 30, 2007, and the amount of life insurance coverage for these retired employees was $70,578,400.

Retiree Health Care Act Contributions. The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public services in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers consist of institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirement Act, Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act, or the Magistrate Retirement Act.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person’s behalf, unless that person retires before the employer’s NMRHCA effective date, in which event the time period for contributions becomes the time between the employer’s effective date and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990; and former legislators who served at least two years.

Each participating employer makes contributions to the fund in the amount of 1.3 percent of each participating employee’s annual salary. Each participating employee contributes to the fund an employee contribution equal to .65 percent of the employee’s annual salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional participation fee of five dollars ($5.00) if the eligible participant retired prior to the employer’s NMRHCA effective date or is a former legislator and made no contributions to the plan.

Contributions from participating employers and participating employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer’s operation or participation in the Retiree Health Care Act. The employer, employee, and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd, NE, Suite 104, Albuquerque, New Mexico 87109.

The City of Albuquerque remitted $3,340,645 in employer contributions and $1,670,323 in employee contributions in the fiscal year ended June 30, 2007.

N. Landfill closure and postclosure care cost

Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post-closure care costs in the Refuse Disposal Fund (Enterprise) as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $1,467,001 reported as other liabilities payable from restricted assets at June 30, 2007, represents the cumulative amount reported to date based on the use of 20.1% of the estimated capacity of the Cerro Colorado and South Broadway Landfills.

The City will recognize the remaining estimated cost of closure and post-closure care of $5,501,088 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2007. The City expects to close the landfill in the year 2037. Actual cost may be higher due to inflation, change in technology, or change in regulations. The City has set aside $1,927,068 for future post-closure costs. This amount is reported as a restricted asset on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate, or additional post-closure care requirements are determined (due to change in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

O. Risk management

The City is exposed to various risks of loss related to torts and civil rights claims (including law enforcement and employment related exposures); theft, damage and destruction of its real and personal assets; workers compensation losses; errors and omissions of City officers and officials; and natural disasters. The City uses the Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of $1,000,000 for each workers' compensation incident, $1,050,000 for each tort liability claim, and $50,000 for each City real and contents damage claim. Losses in other categories and catastrophic losses in the mentioned categories are the subject of insurance and/or actuarially reviewed retentions. Whenever a risk exposure is insured, the City continues to benefit from case coverage on claims that were incurred during the insured claim year.

The Risk Management Fund tracks claims on a fund by fund basis and assesses charges to each fund based on historical claims experience and the need to establish a reserve for unanticipated catastrophic losses. That reserve was $1,000,000 at June 30, 2007, and is included in the unrestricted net assets (deficit) of the Risk Management Fund. The claims liabilities reported in the Risk Management Fund are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic factors. The estimate of the claims liability also includes amounts for incremental claim adjustments expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Based on historical data, the City believes the Risk Management Fund (an internal service fund) is adequately funded. During Fiscal Year 2007, a comprehensive actuarial review was done to gauge the adequacy of the reserves for both the Workers' Compensation and Tort Liability programs. The actuarial review validated that the current reserves are adequate for reserves in anticipation of adverse developments in reported cases and for claims which may have occurred but have not yet been reported. The cash balance grew by $8,875,559 during Fiscal Year 2007. Moreover, pursuant to Section 41-4-25(B) NMSA 1978, in the event of a judgment against the City in excess of $1,000,000 the City, with Council approval, may levy a tax on real property to provide for the payment of catastrophic losses. In addition, the City started Fiscal Year 2007 with $34,605,686 available in the General Fund balance.

Finally, the City has reserve amounts created by the City's policy to reserve one-twelfth of the General Fund budgeted amount. The amounts and change in the Fund's claims liability in fiscal year 2007 and 2006 were:

	2007		2006	
Claims liability at July 1	$	50,950,991	$	50,378,764
Current year claims and change in estimates		29,078,498		22,684,682
Claims liquidated		(23,023,053)		(22,112,455)
Claims liability at June 30	$	57,006,436	$	50,950,991
The components of the claims liability at June 30 are:				
Current portion	$	21,322,550	$	21,916,000
Noncurrent portion		35,683,886		29,034,991
Total claims liability	$	57,006,436	$	50,950,991

P. Albuquerque Bernalillo County Water Utility Authority – Component Unit

In 2003, the New Mexico Legislature adopted Senate Bill 887 (Laws 2003, Chapter 437, codified as Section 72-1-10, NMSA 1978) creating the Albuquerque Bernalillo County Water Utility Authority (Authority) and transferred all functions, appropriations, money, records, equipment and other real and personal property of the City's Joint Water and Sewer Fund (Fund) to the Authority. The Authority is comprised of a board of three City Councilors, three County of Bernalillo Commissioners, and the Mayor of the City. Under the provisions of the legislation, the Water/Wastewater System transferred to the Authority on December 17, 2003, after completion of an audit as of June 30, 2003 of the Water/Wastewater System by the New Mexico Public Regulation Commission. Accordingly, as of July 1, 2003 the Authority reports all transactions of the Water/Wastewater System. To facilitate the Water/Wastewater System transfer, the City, County of Bernalillo, and the Authority entered into a joint powers agreement governing policy matters and a memorandum of understanding governing operational matters. Both of these documents provide a framework for the Authority to operate successfully and without interruption in services provided to the community. The memorandum of understanding (MOU) runs through June 30, 2007. On March 21st, 2007 the City and the Authority entered into a new MOU. Effective July 1, 2007, City water and wastewater utility employees will no longer be City employees and all managerial, operations and maintenance responsibilities associated with the utility shall be fully assumed by the Authority; however, the City shall provide certain administrative services to the Authority.

In accordance with those documents, the City provides accounting and other services for the Authority as well as receiving water and wastewater services from the Authority. The City and the Authority engaged in transactions that are summarized below: The Authority paid the City for the following services:

Franchise Fees	$	5,111,853
Administrative indirect overhead, including accounting and other central services		7,250,334
Warehouse		2,643,353
Fleet Management Services		1,748,120
Telephone		383,797
Office services and parking		58,186
Total	$	17,195,643
The City paid the Authority for water and sewer services in the amount of	$	6,657,619

Q. Commitments and contingencies

Encumbrances for purchase orders, contracts, and other commitments for expenditures are recorded in memorandum accounts of the City's governmental funds. Encumbrances lapse for budgetary purposes at the end of each fiscal year and the subsequent year's appropriations provide authority to complete these transactions. Accordingly, no reservation of fund balance has been created except in limited instances. These typically are for property purchases and will be re-appropriated in the ensuing year. Encumbrances that are outstanding, but not re-appropriated, are a commitment of the City and the outstanding amount is reported in the table below.

Government activities:	
Major Funds: General Fund	$ 8,358,972
Non-major Government Funds	-
Total Governmental Funds	$ 8,358,972

In addition, the business-type funds have uncompleted construction and other commitments that will be paid from assets restricted for construction, improvements and replacements or from operating revenues:

Business-type activities:	
Major Funds:	
Airport Fund	$ 52,305,342
Refuse Disposal Fund	3,305,188
Transit Operating Fund	2,344,326
Non-major Business-type Funds	1,355,847
Total Business-type Funds	$ 59,310,703

In the normal course of business, the City is subject to certain contingent liabilities and unasserted claims. These contingencies are evaluated in light of their probability of being asserted and the estimatability of the claims. Those claims that are probable and estimable have been accrued in the accompanying financial statements. Claims that are possible and/or not estimable are disclosed herein. Remote claims are monitored until such time as they are resolved, disclosed, or accrued. Except as discussed in the following paragraphs, it is the opinion of City management that the ultimate resolution of other litigation will not have a material effect on the financial position of the City.

The City is a defendant in a legal proceeding that does not fall under the New Mexico Tort Claims Act; this legal proceeding alleges that certain time incurred by some of the City of Albuquerque's Fire Department, Transit Department and other employees are subject to overtime compensation. The ultimate outcome of these legal proceedings cannot presently be determined; the case is currently awaiting the Courts consideration on how the calculations are to be determined. Accordingly, no provision for any additional liability that may result upon the ultimate outcome has been recognized in the accompanying general-purpose financial statements and schedules.

The City has received a number of Federal and State grants for specific purposes. These grants are subject to audit that may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. Based on prior experience, City management believes that such disallowances, if any, will not be material.

R. Budget violation

In violation of City ordinance Section 2-11-12 ROA 1994, the City overspent the budget at the following program and fund levels. The City produces quarterly expenditure reports and provides this information to City Departments in an effort to prevent future violations.

Fund/Program	Final Budget	Actual	Variance
General Fund - International Trade	$ 310,000	$ 310,040	$ (40)
General Fund - CIP Library	54,000	55,511	(1,511)
General Fund - Explora	1,500,000	1,502,658	(2,658)
General Fund - Parks and Recreation - Strategic Support	1,073,000	1,093,105	(20,105)
General Fund - Promote Safe Use of Firearms	298,000	317,269	(19,269)
General Fund - Quality Recreation	7,220,000	7,304,167	(84,167)
Golf Course Fund	4,739,000	4,751,994	(12,994)

S. Financial Data Schedule reconciliation

The differences that exist between the amounts shown on the financial statements for the Housing Authority Fund and the amounts shown on the Financial Data Schedule (FDS) are due to: the recognition in the financial statements of the market value of pooled cash and investments allocated to the Housing Authority held by City Treasury, timing differences for the accrual of expenses paid by the City General Fund on behalf of the Housing Authority, adjustments made to the financial statements to reconcile beginning net assets and accrued compensated absences, and immaterial passed adjustments that were recognized as current year activity in the financial statements to agree with those that had already been recorded on the Housing Authority's books in prior years. Reconciliations of the net asset balances and change in net assets are as follows:

Reconciliation of the Change in Net Assets:

Change in Net Assets per FDS	$1,038,289
Current year change in market value of pooled cash and investments	1,814
Adjustment to reconcile accrued compensated absences	7,935
Additional expenses accrued by City general fund	(114,540)
Passed adjustments in financial statements	(385,108)
Change in Net Assets per Financial Statements	$548,390

Reconciliation of Ending Net Assets:

Ending Net Assets per FDS	$29,184,280
Cumulative changes in market value of pooled cash and investments	(542)
Adjustments to reconcile beginning net assets	(3,694)
Adjustment to reconcile accrued compensated absences	7,935
Additional expenses accrued by City general fund	(114,540)
Rounding	4
Change in Net Assets per Financial Statements	$29,073,443

V. Significant effects of subsequent events

Aviation

The City has authorized in October 2006 its Third Lien Airport Revenue Commercial Papers Note Series A, B and C. It is anticipated that the notes will be issued in early Spring/Summer of 2008.