

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A Component Unit of the City of Albuquerque, New Mexico

COMPREHENSIVE ANNUAL FINANCIAL REPORT
July 1, 2006 through June 30, 2007

Albuquerque Bernalillo County Water Utility Authority
A Component Unit of the City of Albuquerque, New Mexico
Comprehensive Annual Financial Report
Year ended June 30, 2007

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INTRODUCTORY SECTION



Albuquerque Bernalillo County Water Utility Authority

March 23, 2008

Board of Directors
Albuquerque Bernalillo County Water Utility Authority

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Albuquerque Bernalillo County Water Utility Authority (Authority) for the fiscal year ended June 30, 2007. New Mexico State Statute 12-6-3, NMSA 1978 mandates that the financial affairs of the Authority's records be thoroughly examined and audited each year by independent public accountants. The Authority is a component unit of the City of Albuquerque (City).

The Comprehensive Annual Financial Report consists of four major sections:

1. The Introductory Section includes the Transmittal Letter with the Authority's Organizational Chart, and a listing of the Authority's Officials, as well as other relevant information to assist the reader in understanding the Authority's management structure, operations and financial condition.
2. The Financial Section which includes the Independent Auditor's Report, Management's Discussion and Analysis of the Financial Statements, the Authority's Financial Statements for the Fiscal Year ended June 30, 2007, explanatory footnotes, and supplementary information.
3. The Statistical Information Section contains tables with general information about the Authority and comparative data for prior years.
4. State Compliance and Operational Findings includes certain schedules required by the State Auditor's Office.

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

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

Profile of the Authority

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Authority and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Sewer Systems (System) would be transferred to the Authority. The legislation also provides that the debts of the City payable from Net Revenues of the System shall be debts of the Authority and that the Authority shall not impair the rights of holders of outstanding debts of the System. The legislation also required that the New Mexico Public Regulation Commission audit the System prior to the transfer of money, assets and debts of the System to the Authority; the audit was completed in December

2003. By operation of law, functions, appropriations, money records, equipment and other real and personal property pertaining to the System have been transferred to the Authority. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Authority as a political subdivision of the state. Effective July 1, 2007, the Authority assumed all management and operation of what was the City Water Utility Department. A new Memorandum of Understanding between the Authority and the City became effective July 1, 2007 and runs through June 30, 2012.

Members of the Water Authority Board at June 30, 2007:

- Councilor Martin Heinrich, Chair
- Commissioner Deanna Archuleta, Vice-Chair
- Commissioner Alan B. Armijo
- Councilor Isaac Benton
- Councilor Michael J. Cadigan
- Mayor Martin J. Chavez
- Commissioner Teresa Cordova

Ex Officio Member at June 30, 2007:

- Pablo Rael, Trustee, Village of Los Ranchos

Summary of Local Economy

Bernalillo County with a population of approximately 615,100 includes the City of Albuquerque with a population of about 505,000 which is New Mexico's largest city and economic center. The Albuquerque Metropolitan Statistical Area (MSA) includes Bernalillo, Sandoval and Valencia Counties with a population of approximately 816,800. Albuquerque is the dominant economic hub for the state of New Mexico and is home to more than 36% of the state's total employed population. The area's economy is diversified with retail, healthcare, government and manufacturing industries. In addition, with the significant presence of the University of New Mexico, Kirtland Air Force Base, Sandia National Labs (SNL), and an international airport to provide stability and offset fluctuations in private employment, Albuquerque will continue to fuel the overall economic health of the state.

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

Albuquerque MSA Employment in Thousands

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

In the near term, the Albuquerque/Bernalillo County area is benefiting from strong growth, increased tourism and a construction boom. Unemployment rates remain low and averaged 3.8% in FY/07. Several large manufacturing firms have recently moved to the Albuquerque/Bernalillo County area and/or expanded. The broadening of the industrial base to include aviation, solar cell production and mattress production will help the Albuquerque/Bernalillo County area to continue to grow and prosper. Albuquerque and Bernalillo County are well positioned to attract new investment by suppliers, customers, and other producers. The national labs

strengthen the Albuquerque/Bernalillo County economy. Sandia National Laboratories (SNL) has devoted a great deal of research to terrorism and homeland security and the mission to protect the nuclear weapons arsenal. The micro-systems technology, or nano-technology, for which SNL is well known, may provide many novel and inexpensive answers to medical and materials sciences. The labs expertise and technology is also becoming more readily available to the private sector.

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

Long-term financial planning

The Authority uses a ten year financial plan that takes into account resources, expenditures, capital needs and debt service requirements. The financial plan provides the Authority with the ability to compare the impact of future financial activity and issues to determine the most appropriate method of maintaining the Authority's financial stability. The Authority reviews water and sewer rates bi-annually to insure that inter and intra class equity is maintained.

Effective July 1, 2007, the Authority Board approved new policies that will impact financial planning for the future. A Rate Reserve Fund of one million dollars funded annually for five years was established to help offset fluctuations in revenue in the future and mitigate the need for rate increases. An annual adjustment to the Utility Expansion Charge (UEC) based on the building cost or construction cost indices was implemented. This adjustment will allow the Authority's capital program to maintain constant dollars with inflationary increases in the future. A Water Supply Charge was established to provide the resources for the Authority to begin the planning, acquisition and development of new water sources to meet the demands of new customers outside the established service area without impacting existing customers.

The Authority also develops a Decade Plan that guides the capital implementation program (CIP). The projects embodied in the plan are identified for near-term and future work, and include both rehabilitation needs and growth-related activities. The Authority's financial planning considers basic program needs as part of its revenue requirements, and by policy requires financing 50 percent of basic CIP work from water and sewer rate revenues. The balance of capital funding is obtained through revenue bond or loan financing. Growth-related projects are funded through Utility Expansion Charge (UEC) revenues, either by reimbursing capital investments made under the terms of a Developer Agreement, or by direct appropriations to CIP projects. The development of a Decade Plan allows for long-term planning for both initial construction and rehabilitation costs as well as additional operating costs to operate and maintain new water and wastewater facilities.

The Authority budgets for operations and capital implementation are driven by the Board approved Five Year Goals and one year objectives.

Relevant Financial Policies

Budgetary Controls

The fiscal year 2007 budget provided the financial basis of operation for the Authority and the Water Utility Department through June 30, 2007. After Board approval of the budget, a formal appropriation and encumbrance system to control expenditures is maintained by the City's financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Authority's budget by program. For fiscal year 2007, it is at the fund level that expenditures may not exceed appropriations. Outstanding encumbrances at June 30, 2007 have been reappropriated in fiscal year 2008.

Cash Management

Pursuant to the Memorandum of Understanding, the Authority participates in the pooled cash investment program as outlined in the Fiscal Agent Ordinance of the City. Cash temporarily idle during the year was invested in those investments and deposits authorized by the City's Investment Policy. The City's policy is to minimize investment and market risk while seeking to obtain a competitive yield on its total portfolio. Total investments and deposits in the City's common investment pool were \$701 million at June 30, 2007. The Authority had an average daily balance of \$272 million in cash and investments during fiscal year 2007. This increase in the Authority's average investment for fiscal year 2007 was due to borrowings for the San Juan Chama drinking water project. The City portfolio average yield for fiscal year 2007 was 4.445%. Interest earned by the Authority on a cash basis totaled \$12.1 million for fiscal year 2007.

Risk Management

The Authority participates in the City's Risk Management program that is operated as an Internal Service Fund. Managerial control and accountability over workers compensation, tort liability, and other risks are maintained through this fund. The program is intended as a self-insurance program with added risk control and prevention techniques. Transfers to the Risk Management fund from the Authority for fiscal year 2007 were \$4.92 million

compared to transfers in the prior year of \$5.39 million. Total claim reserves (current and long-term), including the Authority, were \$57 million as of June 30, 2007, a \$6.05 million increase from \$50.95 million in the previous year.

The Authority has maintained a conservative approach to financial matters, which includes a twelve year or less debt term for basic capital financing, a minimum of fifty percent cash financing for basic capital projects and a minimum of 133% annual debt service coverage. The Authority also submits quarterly financial status reports for both capital and operating revenues and expenditures to the Authority Board for review.

Major Initiatives

The transition of the Water Utility Department from the City to the Authority became effective July 1, 2007. The transition moved employees formerly under the City to the Authority. In addition the Authority and the City entered into a new Memorandum of Understanding (MOU) that became effective July 1, 2007. Under the new MOU, the Authority operates with greater autonomy from the City while continuing to utilize core central services of the City. The transition has been proceeding smoothly. The Authority will be negotiating new union contracts with all represented unions to become effective in Fiscal Year 2009.

The Authority's San Juan-Chama Drinking Water Project is scheduled for completion in July 2008. This Project will supply up to 70% of the metropolitan area's future water. San Juan-Chama water diverted from the Rio Grande River will be transported to a state-of-the-art treatment plant, from which purified water will be delivered to Albuquerque area homes and businesses.

Awards and Acknowledgements

This Comprehensive Annual Financial Report has been prepared to conform to the Government Finance Officers Association (GFOA) of the United States and Canada, Certificate of Achievement for Excellence in Financial Reporting Program. We believe that this Comprehensive Annual Financial Report meets the Certificate of Achievement Program's requirements and will be submitted to the GFOA to determine its eligibility for a certificate.

The Authority has received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal years beginning July 1, 2006 and July 1, 2007. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications medium.

We would like to thank the Board for their support in the planning and implementation of the financial affairs of the Authority. The Authority also wishes to express its appreciation to the City's Department of Finance and Administrative Services who contributed to the preparation of this report and recognize in particular the Accounting Division and its Financial Reporting Section in administering the City's accounting system and in preparing this report.

Respectfully submitted,

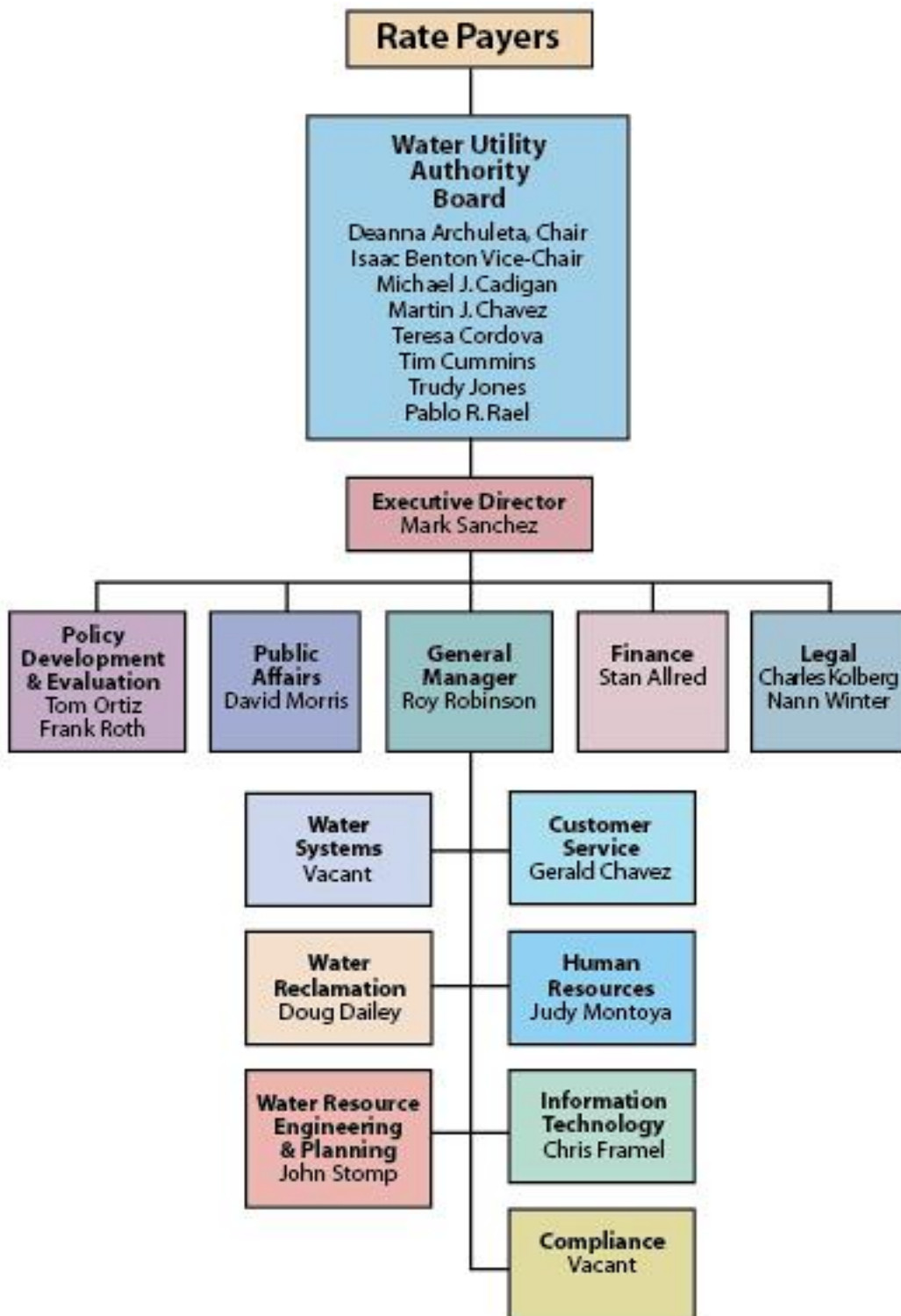


Mark S. Sanchez
Executive Director



Tom Ortiz
Financial Analyst

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
ORGANIZATION CHART**



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FINANCIAL SECTION

Independent Auditors' Report

Albuquerque Bernalillo County
Water Utility Authority

We have audited the accompanying basic financial statements of the Albuquerque Bernalillo County Water Utility Authority, a component unit of the City of Albuquerque, New Mexico, as of and for the year ended June 30, 2007, as listed in the table of contents. We have also audited the budgetary comparison as of, and for the year ending June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in note 1, the financial statements of the Authority are intended to present the financial position, and the changes in financial position and cash flows of the Authority. The financial statements do not purport to, and do not, present fairly the financial position of the City of Albuquerque as of June 30, 2007 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2007, the changes in its financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly the budget comparisons presented as supplementary information thereof for the year ended June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

Albuquerque Bernalillo County
Water Utility Authority

In accordance with *Government Auditing Standards*, we have also issued our report for the City of Albuquerque (fiscal agent for the Authority) dated March 17, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

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

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

Mess Adams LLP

Albuquerque, New Mexico
April 23, 2008

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

As management of the Albuquerque Bernalillo County Water Utility Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2007. Readers are encouraged to consider the information presented here in conjunction with our audited financial statements and additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

Accrual Basis

The assets of the Authority exceeded its liabilities at the close of fiscal year 2007 by \$729.0 million (net assets). Of this amount, \$56.5 million (unrestricted net assets) may be used to meet the Authority's ongoing obligations to creditors in subsequent accounting periods.

The Authority's total net assets increased by \$34.7 million during the year.

The Authority's total long-term obligations increased by \$92.6 million (21.4%) during the current year. Long-term debt increased by \$93.5 million and additions to accrued vacation, sick leave and deferred revenue decreased by \$1.0 million.

Cash Basis

During the fiscal year, major sources of cash were provided by operating activities \$68.7 million, utility expansion charges \$12.5 million, proceeds from debt borrowing \$136.7 million, investment income \$12.5 million and capital grants \$2.3 million. Major uses of cash during the fiscal year were for acquisition and construction of capital assets \$208.0 million and debt service \$67.9 million including \$44.6 million in principal and \$23.3 million in interest payments and issuance costs. \$29.8 million was paid to or on behalf of employees.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements contain two components: 1) financial statements, and 2) notes to those financial statements. This comprehensive annual financial report also contains other supplementary and statistical information in addition to the basic financial statements.

Basic Financial Statements

The Authority's financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on the Authority's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the Authority is improving or deteriorating, absent extraordinary events.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *statement of cash flows* reports cash receipts, cash payments and net changes in cash resulting from operating activities, capital and related financing activities and investing activities for the fiscal year.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2007

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary and statistical information.

FINANCIAL ANALYSIS

As previously noted, net assets may serve as a useful indicator of whether or not the financial position of the Authority is improving or deteriorating.

The following is a comparative analysis of net assets for the most recently completed fiscal year and the prior fiscal year.

Condensed Statement of Net Assets
(Amounts in thousands)

	<u>2007</u>	<u>2006</u>	<u>Percent Change 2006 – 2007</u>
Assets:			
Current and other assets	\$ 171,119	\$ 211,720	(19.1)
Capital assets, net	<u>1,161,094</u>	<u>988,535</u>	<u>17.5</u>
Total Assets	<u>1,322,213</u>	<u>1,200,255</u>	<u>10.2</u>
Liabilities:			
Current and other liabilities	77,759	73,080	6.4
Long-term bonds and notes payable	524,955	431,428	21.7
Other non-current liabilities	<u>544</u>	<u>1,530</u>	<u>(64.4)</u>
Total Liabilities	<u>603,258</u>	<u>506,038</u>	<u>19.2</u>
Net Assets:			
Invested in capital assets, net of debt	666,487	609,555	7.7
Restricted	6,003	18,458	(67.5)
Unrestricted	<u>56,465</u>	<u>65,804</u>	<u>(14.2)</u>
Total Net Assets	<u>\$ 728,955</u>	<u>\$ 694,217</u>	<u>5.0</u>

At the close of the Fiscal year ended June 30, 2007, assets exceeded liabilities by \$729.0 million. The largest portion, 91.4%, is from the Authority's investment in capital assets less any related debt used to acquire those assets. The investment in capital assets net of related debt increased by \$56.9 million in fiscal year 2007. Since capital assets themselves are not intended to be used to liquidate liabilities, resources to repay the debt associated with the capital assets must be provided from other sources. These capital assets are used to provide water and wastewater service and are not available for future spending.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2007

The following is a comparative analysis of the changes in net assets for the most recently completed fiscal year and the prior fiscal year.

	Changes in Net Assets (Amounts in thousands)		Percent Change 2006 – 2007
	<u>2007</u>	<u>2006</u>	
Operating revenues:			
Water charges including reuse	\$ 63,373	\$ 61,775	2.6
High consumption water surcharges	2,256	4,363	(48.3)
Sewer charges	46,772	46,558	0.0
Strategy implementation fee	22,815	24,830	(8.1)
Franchise fees billed	4,655	-	100.0
Water rights lease and administrative fees	<u>1,163</u>	<u>676</u>	<u>72.0</u>
Total charges for services	<u>141,034</u>	<u>138,202</u>	<u>2.0</u>
Operating expenses:			
Water plant maintenance	9,789	9,897	(1.1)
Water plant operations	9,253	8,526	8.5
Water distribution maintenance	4,088	3,274	24.9
Wastewater treatment	9,776	9,097	7.5
Wastewater pretreatment / lab	3,006	2,895	3.8
Wastewater collection	6,428	5,448	18.0
Customer services	4,081	3,772	8.2
Finance	5,673	6,133	(7.5)
San Juan Chama/Strategy Implementation	1,409	11	100.0
Strategic support	1,188	1,313	(9.5)
Utility development	1,320	983	34.3
Information systems	2,256	1,309	72.3
Low income utility credit	226	187	20.9
Water Authority	1,068	685	55.9
Water resources management	2,649	2,717	(2.5)
North I-25 reuse	350	374	(6.4)
Administrative services paid to City of Albuquerque	2,567	2,346	9.4
Franchise fees paid	5,458	5,203	4.9
Depreciation	55,926	51,934	7.7
Amortization	<u>392</u>	<u>383</u>	<u>2.4</u>
Total operating expenses	<u>126,903</u>	<u>116,487</u>	<u>8.9</u>
Operating income	14,131	21,715	(34.9)
Non-operating revenues (expenses):			
Utility expansion charges	12,516	17,254	(27.5)
Interest on investments	8,936	5,019	78.0
Interest expense	(15,889)	(8,619)	84.3
All other	<u>(404)</u>	<u>(13)</u>	<u>100.0</u>
Income before capital contributions and transfers	19,290	35,356	(45.4)
Capital contributions	<u>15,448</u>	<u>16,854</u>	<u>(8.3)</u>
Change in net assets	34,738	52,210	(33.5)
Net assets, July 1	<u>694,217</u>	<u>642,007</u>	<u>8.1</u>
Net assets, June 30	<u>\$ 728,955</u>	<u>\$ 694,217</u>	<u>5.0</u>

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2007

Analysis of Changes in Net Assets

Water revenue increased a nominal 2.6% from 2006. While precipitation levels in fiscal year 2007 were almost double the normal, the pattern of well above normal precipitation immediately followed by steep declines and below normal levels of precipitation including at the start of the summer of calendar year 2007 lessened the effect on demand. The increase in water residential sales from \$30.9 million in 2006 to \$34.4 million in 2007 reflected the pass thru of the 4% franchise fee the Authority pays the City of Albuquerque, Bernalillo County and the Village of Los Ranchos. The Authority pumped approximately 4.5 billion gallons less water in FY2007 versus FY2006. Annual precipitation of 16.85 inches was 9.92 inches more than fiscal year 2006 and well above the average rainfall of 8.50 inches.

San Juan Chama Strategy Implementation revenue declined 8.1% in 2007. The fee structure is aimed more at charging commodity usage than fixed fee and moves in the opposite direction from the success of conservation efforts. Revenues generated from this fee are designated for the purpose of the San Juan Chama Drinking Water Project.

Wastewater revenue was unchanged in 2007 although residential sales increased by \$3.5 million in 2007. The increase in residential sales paralleled the increase in residential water sales and is indicative of customer growth especially in the unincorporated sections of the service area.

The nearly 50% decline in high consumption water surcharge revenue indicates the Authority's conservation efforts and pricing policies are having an effect.

The Authority also changed the way it handles the franchise fee revenue by passing through cost the Authority pays to the City of Albuquerque, Bernalillo County and Village of Los Ranchos for use of the right of way. Prior to 2007, the franchise fee cost was absorbed by the Authority. The Authority received permission to bill this cost as a pass through expense beginning July 1, 2006.

The largest operating expense component of the Authority is personnel costs. The Authority began filling many vacant positions in 2007. Also some new positions were added due to the pending transfer of operational control of the Utility including its employees from the City of Albuquerque to the Authority effective July 1, 2007. Higher fuel, utility and chemical costs also contributed to the increase in operating expenses.

Depreciation expense increased by \$4.0 million and will continue to increase as water and wastewater infrastructure is placed into service for our customers.

Utility Expansion Charge (UEC) revenue decreased by more than 25% in 2007. The UEC is the charge for new connections to the water and sewer system. Several market factors impacted this revenue in 2007. The adjacent city of Rio Rancho, outside of the Authority service area, is growing at a pace unmatched by any other city in the state of New Mexico and developers are building where the action is. Rio Rancho, unlike the City of Albuquerque which comprises the majority of the Authority's service area, does not impose impact fees on developers. Finally, the Authority imposed UEC rate increases effective July 1, 2006 and some developers front ended work in 2006 before the rate increases took effect.

Financial statement investment income as reported above shows an increase of \$3.9 million while on a cash basis investment income increased by \$4.7 million. The difference is due to the financial statement entries that are made to record capitalized interest in the capital project funds. The increase reflects the nationwide increase in interest rates during 2007 and the debt borrowing in July 2006 that temporarily increased the Authority's cash balance while the funds were being spent down.

The increase in interest expense of 84.3% reflects the significant new debt incurred in recent years to finance the San Juan Chama Drinking Water Project and an expanded Basic capital program. Some of the new debt had the first full year of repayment in 2007.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2007

OPERATING FUNDS BUDGETARY HIGHLIGHTS

The Utility's final fiscal year 2007 operating budgets were virtually unchanged from the original budgets primarily because the increase in investment income made up for the lower than forecast utility expansion charge revenue and allowed spending to remain unchanged.

Budgeted and actual revenues, other than transfers from non-restricted cash to cash restricted for debt service, increased slightly over 2006 due to the rate increase effective July 1, 2006 (a 4% franchise fee pass through and a 1% increase for the Water Resources Management conservation program). These rate increases were offset by continued gains in water conservation.

Budgeted expenses both in the original and final budget were set at amounts greater than budgeted revenues. There were concerns about revenue realization and expenditure requirements behind this decision to fund some of the budget from fund balance. While the revenue forecast was for a modest increase there was some uncertainty about maintaining the recent strong level of utility expansion charge revenue which mirrors the cyclical nature of construction activity. Despite the 5% rate increase the effect of water conservation efforts on demand and revenue was unknown. On the expenditure side, there were budgeted increases in transfers for debt service and transfers to the capital program that were certain to be realized. In addition, there were budgeted increases in personnel, fuel, chemicals, power and contractual services that were considered very likely to be realized. While there were concerns about revenue realization at budgeted levels, the expectation was that expenditures would be at budgeted levels.

Actual expenditures, other than transfers and debt service, were \$4 million less than budgeted. There was a significant effort to control spending once it became clear that utility expansion charge revenue was going to come in well below budget. The program with the greatest actual spending less than budget was Water Resources. There was a slower than expected need for personnel and operating expenditures in preparation for the coming on line of the Drinking Water Treatment Plant.

CAPITAL FUNDS BUDGETARY HIGHLIGHTS

The Basic capital program for fiscal year 2007 was \$48 million including an \$8 million carryover from fiscal year 2006. The Basic program is measured on a cash basis and for the first time since the Authority was created there will be no carryover of unspent funds to the next fiscal year. The Authority has an Asset Management initiative in place that has the goal of integrating an updated Computerized Maintenance Management System into the process for revenue allocation decisions. The expectation is that the demand for capital will exceed the revenues available in the foreseeable future.

Fiscal year 2007 was the end of the two year capital program outlined in the 2006 – 2015 Decade Plan. The 2008 – 2017 Decade Plan was approved by the Authority Board in June 2007 and will set the framework for the capital program in the 2008 and 2009 fiscal years.

The San Juan Chama Drinking Water Treatment Plant and Pipelines project is being financed outside of the Basic program. Fiscal year 2007 cash transfers from the operating funds to capital were \$16 million and another \$10 million of utility expansion charge revenue was transferred from the debt service fund to capital. The Authority in July 2006 secured debt financing in the amount of \$9 million for the Basic capital program and another \$12 million for water and sewer infrastructure expansion in the Authority's North and South Valley service areas for fiscal year 2007 and beyond. Another \$112 million of new debt was secured for the San Juan Chama Drinking Water Treatment Plant and Pipelines project.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2007

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
(net of depreciation, in thousands)

	2007	2006	Percent Change 2006 – 2007
Land *	\$ 23,232	\$ 23,181	0.0
Buildings and improvements	692	736	(6.0)
Improvements other than buildings	785,880	758,891	3.6
Machinery and equipment	<u>27,120</u>	<u>26,165</u>	<u>3.6</u>
Capitalized assets	836,924	808,973	3.5
Construction work in progress *	<u>324,170</u>	<u>179,562</u>	<u>80.5</u>
Total capital assets	<u>\$1,161,094</u>	<u>\$ 988,535</u>	<u>17.5</u>

* Assets not being depreciated

Capital Assets

The Authority's gross investment in capital assets, excluding construction work in progress at June 30, 2007 was \$1.68 billion. The net depreciated capital assets were \$1.161 billion. Capital asset additions, including construction work in progress, during fiscal year 2007 were \$229 million. The \$144.6 million increase in construction work in progress was largely attributable to the continuing construction of the San Juan Chama Drinking Water project discussed below which is scheduled for start up operations in Fall 2008.

Projects of significance included:

College Arsenic Removal Facility - \$6.6M

The construction of the arsenic removal demonstration facility neared completion in fiscal year 2007. The treatment system is part of the Authority's strategy to comply with the new arsenic standard that incorporates the surface water system, ground water wells and transferring ground water from the east side of Albuquerque to the west side. This is the first of several planned arsenic removal facilities.

Valley Utilities Projects - \$6.6M

Construction work on two Authority managed sewer projects in the unincorporated North Valley service area were completed in fiscal year 2007. With the end of those projects, work has shifted to several large water and sewer projects in the North and South Valley service areas with cost sharing from Bernalillo County Public Works Department.

Low Income Water – Sewer Connections - \$.4M

Through its participation in the Partners in Improvement and Protection of the Environment (PIPE) program the Authority has for more than a decade provided financial assistance to low income residents connecting to the Utility sewer system. The Second Supplemental Agreement now allows for the inclusion of water system connections in the Agreement and authorizes reimbursement from the Authority for connecting to the water system.

MIS / GIS Development - \$1.6M

The current Utility billing system, a Peoplesoft product called Customer Information System (CIS) went live on July 1, 2005. Oracle Corporation has since acquired Peoplesoft and the affiliated consulting firm that did the CIS implementation project management. Oracle has decided to discontinue support for CIS as of July 2009 and make the Oracle system, called Customer Care & Billing (CC&B) its utilities software product. Work on the conversion to CC&B is underway. Completed in 2007 was the implementation of a computerized timekeeping system that allows visibility into real-time employee information and provides employees with anytime, anywhere access self-service solutions.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2007

Capital Assets, continued

San Juan Chama Drinking Water Treatment Plant and Pipelines - \$150.0M

This project is the third of four projects specifically identified in the Water Resource Management Strategy adopted in 1997 by the City of Albuquerque representing the culmination of years of planning and technical investigations, cooperation with federal, state and local agencies and public involvement and education. One project goal is to preserve and protect the aquifer by using renewable surface water supplies in lieu of using deep aquifer groundwater supplies. The second goal is to meet the more stringent federal arsenic standards by blending the low arsenic surface water with the higher arsenic ground water.

Construction on the San Juan Chama Drinking Water Project continued during fiscal year 2007. By the end of fiscal year 2008, the only project anticipated to be still in process is the drinking water treatment plant which was more than 60% completed at the end of fiscal year 2007. The \$450 million project is scheduled to be operational in Fall 2008.

Water Facility Renovation - \$4.0M

This on-going multi-year program is rehabilitating pump stations, steel and concrete reservoirs, abandoning and plugging old wells and replacing gas chlorine disinfection facilities with safer sodium hypochlorite generating facilities. Some work is being done in conjunction with the installation of the Drinking Water Project pipelines.

Interceptor Sewer Rehab - \$11.8M

Interceptor rehab may be the most serious rehab issue facing the Authority. Interceptor sewers are the largest diameter lines (15" – 84") and carry large flows from extensive portions of the service area that cannot easily be rerouted. The Authority provides funding for emergency repairs while working on identifying high risk interceptor sewers most subject to deterioration and loss of serviceability for lining or renewal on a planned basis.

Developer Agreements - \$2.3M

The Authority requires developers of new service areas to construct the necessary major facilities and then receive reimbursement from utility expansion charges as connections are made to those facilities. The use of developer agreements will expand rapidly in the near future as very large developments in the south and west sections of the service area are in the planning stages.

Debt Administration

At the end of fiscal year 2007, the Authority had \$559.9 million in bonds, notes and loans outstanding including unamortized balances, an increase of \$92.6 million from the prior year. The \$92.6 million is comprised of the net of 1) bonds and notes issued of \$133.4 million, 2) less \$44.6 million of principal payments and 3) plus \$3.8 million of bond premium received net of amortization expense. Net revenues of the system secure debt issued by the Authority. Debt coverage for fiscal year 2007 was 1.57 times which is higher than the 1.33 times required by Ordinance. Debt issued for basic capital needs is scheduled for 12 year retirement while debt issued for San Juan Chama Drinking Water Project is scheduled for 20 year retirement.

The Authority sold \$133.39 million of revenue bonds in July 2006. \$12 million went to fund the Valley Utilities Projects comprising infrastructure improvements in the unincorporated sections of the service area and are being jointly funded with Bernalillo County. \$9 million went to fund some of the rehabilitation portion of the Basic capital program. The remaining \$112.39 million is to be used for the San Juan Chama Drinking Water Project.

More detailed information can be found in the Notes to the Accompanying Financial Statements.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued.
June 30, 2007

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Bernalillo County with a population of approximately 615,100 includes the City of Albuquerque with a population of about 505,000 which is New Mexico's largest city and economic center. The Albuquerque Metropolitan Statistical Area (MSA) includes Bernalillo, Sandoval and Valencia Counties with a population of approximately 816,800. Albuquerque is the dominant economic hub for the state of New Mexico and is home to more than 36% of the state's total employed population. The area's economy is diversified with retail, healthcare, government and manufacturing industries. In addition, with the significant presence of the University of New Mexico, Kirtland Air Force Base, Sandia National Labs (SNL), and an international airport to provide stability and offset fluctuations in private employment, Albuquerque will continue to fuel the overall economic health of the state.

The Albuquerque/Bernalillo County economy has an industry composition not unlike that of the U.S. as a whole. Manufacturing, while a smaller part of the Albuquerque economy, has not declined in importance as in the U.S. where manufacturing has declined substantially since the 1960s. In the near term, the Albuquerque/Bernalillo County area is benefiting from strong growth, increased tourism and a construction boom. Unemployment rates remain low and averaged 3.8% in FY/07. Several large manufacturing firms have recently moved to the Albuquerque/Bernalillo County area and/or expanded. The broadening of the industrial base to include aviation, solar cell production and mattress production will help the Albuquerque/Bernalillo County area to continue to grow and prosper. Albuquerque and Bernalillo County are well positioned to attract new investment by suppliers, customers, and other producers. The national labs strengthen the Albuquerque/Bernalillo County economy. Sandia National Laboratories (SNL) has devoted a great deal of research to terrorism and homeland security and the mission to protect the nuclear weapons arsenal. The micro-systems technology, or nano-technology, for which SNL is well known, may provide many novel and inexpensive answers to medical and materials sciences. The labs expertise and technology is also becoming more readily available to the private sector.

The Authority's customer base increased from 170,060 at the end of fiscal year 2006 to 172,270 at the end of fiscal year 2007. The customer base has been increasing 2% a year although the effect on revenue has been tempered by water conservation efforts.

From calendar year 2000 through calendar year 2006, water production decreased from 37.101 billion gallons per year to 31.384 billion gallons per year. Unaccounted for water, the difference between water pumped and water billed, increased from 10.85% to 10.97% of water pumped over that span.

The Authority Board approved a 100% increase in Utility Expansion Charges (UEC) to be phased in over three years. The final UEC increase became effective July 1, 2007. UEC's are levied in accordance with the Development Fees Act, Sections 5-8-1 through 5-8-41, NMSA 1978. UEC revenues are required to be used for expansion or improvement of the water and sewer systems.

The Authority Board approved effective July 1, 2007 the imposition of a Water Supply Charge (WSC) for new water customers requesting connection to the water system in an area not located within the Authority's service area and requiring a development agreement.

Construction on the San Juan Chama Drinking Water Project continued throughout fiscal year 2007. Several major projects were completed during fiscal year 2007 including the diversion dam/intake structure/fish passage and five transmission pipelines. Another 30% of the drinking water treatment plant was completed in fiscal year 2007. At June 30, 2007 there was only one construction project that had not yet been started. By December 31, 2007 another six construction projects had been completed in fiscal year 2008. The only construction project anticipated to remain uncompleted as of June 30, 2008 will be the drinking water treatment plant. The \$450 million project is scheduled to be operational in the fall of 2008.

The fiscal year 2008 Basic capital program is \$44 million. The Rate Ordinance requires that \$30 million be spent for rehabilitating water and sewer infrastructure and another \$14 million will be used for infrastructure growth projects. Cash transfers from the operating program provide at a minimum 50% of the Basic capital program cost with the remaining funding provided by debt financing. Outside of the Basic capital program, a cumulative \$30 million will have been provided by the end of fiscal year 2008 for the Valley Utilities Projects, a series of projects managed by Bernalillo County constructing water and sewer infrastructure expansion in the unincorporated North and South Valley service areas.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Albuquerque Bernalillo County Water Utility Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Executive Director, Room 5012, One Civic Plaza N.W., Albuquerque, New Mexico 87102.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF NET ASSETS
June 30, 2007

ASSETS

Current assets:

Cash, investments, and accrued interest	\$ 30,824,887
Cash with fiscal agents held for debt service	39,245,721
Accounts receivable, net of allowance for uncollectible accounts	15,120,543
Notes receivable, current portion	987,306
Due from other governments	<u>1,535,517</u>

Total current assets 87,713,974

Noncurrent assets:

Long-term accounts and notes receivable	<u>5,573,221</u>
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Restricted assets:

Cash, investments, and accrued interest	43,956,845
Investment with fiscal agents	504,505
Escrow deposits	<u>147,161</u>

Total restricted assets 44,608,511

Capital assets:

Land	23,232,063
Buildings and improvements	2,210,836
Improvements other than buildings	1,606,074,591
Machinery and equipment	<u>51,310,341</u>
	1,682,827,831
Less accumulated depreciation	<u>845,903,709</u>

Net capital assets 836,924,122

Construction work in progress	<u>324,170,005</u>
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Total capital assets 1,161,094,127

Other:

Capitalized bond issuance costs	3,600,577
Purchased water rights, net of accumulated amortization of \$9,913,555	<u>29,622,203</u>

Total other 33,222,780

Total noncurrent assets 1,244,498,639

Total assets 1,332,212,613

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF NET ASSETS, continued
June 30, 2007

LIABILITIES

Current liabilities:

Accounts payable	2,499,096
Accrued employee compensation	2,887,340
Deposits	887,095
Accrued interest payable	445,206
Water rights contract	866,987
Payable from restricted assets:	
Contracts and other payables	26,691,750
Current portion:	
Bonds	30,170,000
Loan agreements	3,947,591
Accrued interest	<u>9,363,546</u>
Total current liabilities	<u>77,758,611</u>

Noncurrent liabilities:

Long-term payable:	
Bonds, net of current portion, discounts and premiums	359,701,073
Loan agreements, net of current portion	148,581,113
Water rights contract, net of current portion	<u>16,672,316</u>
Total long-term payable	<u>524,954,502</u>
Other:	
Accrued vacation and sick leave pay	<u>544,324</u>
Total noncurrent liabilities	<u>525,498,826</u>
Total liabilities	<u>603,257,437</u>

NET ASSETS

Invested in capital assets, net of related debt	666,487,051
Restricted for:	
Debt service	6,003,021
Unrestricted	<u>56,465,104</u>
Total net assets	<u>\$ 728,955,176</u>

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Year ended June 30, 2007

Operating revenues:	
Charges for services	<u>\$ 141,033,829</u>
Operating expenses:	
Salaries and fringe benefits	30,150,765
Professional services	571,909
Utilities	7,844,415
Supplies	4,492,618
Travel	35,578
Fuels, repairs, and maintenance	9,494,065
Contractual services	3,937,255
Other operating expenses	14,058,027
Depreciation	55,925,877
Amortization	<u>392,290</u>
Total operating expenses	<u>126,902,799</u>
Operating income	<u>14,131,030</u>
Nonoperating revenues (expenses):	
Interest on investments	8,936,303
Interest expense	(15,888,684)
City water service expansion charges	12,516,234
Bond issue amortization	(305,887)
Expenses incurred for outside agency	(118,151)
Other	<u>19,131</u>
Total nonoperating revenues	<u>5,158,946</u>
Income before capital contributions and transfer of assets	19,289,976
Capital contributions	<u>15,448,469</u>
Change in fund net assets	34,738,445
Net assets, July 1	<u>694,216,731</u>
Net assets, June 30	<u>\$ 728,955,176</u>

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF CASH FLOWS
Year ended June 30, 2007

Cash flows from operating activities:	
Cash received from customers	\$ 138,284,022
Cash payments to employees for services	(29,841,817)
Cash payments to suppliers for goods and services	(40,060,668)
Miscellaneous cash received	<u>277,477</u>
Net cash provided by operating activities	<u>68,659,014</u>
Cash flow from noncapital financing activities:	
Principal paid on water rights contract	(841,359)
Interest paid on water rights contract	(559,875)
Purchased water rights	<u>(940,830)</u>
Net cash used for noncapital financing activities	<u>(2,342,064)</u>
Cash flows from capital and related financing activities:	
Proceeds from revenue bonds	136,744,411
Capitalized bond issuance costs	(1,448,961)
Principal paid on revenue bond maturities	(36,605,001)
Interest and other expenses paid on revenue bond maturities	(16,053,258)
Principal paid on notes payable	(7,183,092)
Interest paid on notes payable	(5,261,014)
Acquisition and construction of capital assets	(208,039,448)
Capital grants received	2,275,756
City water service expansion charges	12,516,234
Payments to other agencies for infrastructure	(118,151)
Proceeds from sale of capital assets	<u>18,523</u>
Net cash used for capital and related financing activities	<u>(123,154,001)</u>
Cash flows from investing activities:	
Interest received on investments	<u>12,464,361</u>
Net decrease in cash and cash equivalents	(44,372,690)
Cash and cash equivalents, July 1	<u>159,051,809</u>
Cash and cash equivalents, June 30	<u><u>\$ 114,679,119</u></u>

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF CASH FLOWS, continued
Year ended June 30, 2007

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 14,131,030
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	55,925,877
Amortization	392,290
Miscellaneous cash received	277,477
Decrease (increase) in assets:	
Receivables	(2,349,807)
Increase (decrease) in liabilities:	
Accounts payable	373,199
Deferred revenue	(400,000)
Accrued employee compensation and benefits	<u>308,948</u>
Net cash provided by operating activities	<u>\$ 68,659,014</u>

Cash and cash equivalents at June 30 consist of:

Current assets:	
Non-restricted - Cash, investments, and accrued interest	\$ 30,824,887
Restricted - Cash with fiscal agents held for debt service	39,245,721
Non-Current Assets:	
Restricted assets:	
Cash, investments, and accrued interest	43,956,845
Investment with fiscal agents	504,505
Escrow deposits	<u>147,161</u>
Total cash and cash equivalents, June 30	<u>\$ 114,679,119</u>

Noncash transactions:

Capital contributions by developers	12,852,834
Unrealized gain on investments	326,304
Interest accretion on capital appreciation bonds	(1,499,271)

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

I. Summary of Significant Accounting Policies

The financial statements of the Albuquerque Bernalillo County Water Utility Authority (Authority), a component unit 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

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Albuquerque Bernalillo County Water Utility Authority (Authority) and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Sewer Systems (System) would be transferred to the Authority. The legislation also provides that the debts of the City payable from Net Revenues of the System shall be debts of the Authority and that the Authority shall not impair the rights of holders of outstanding debts of the System. The legislation also required that the New Mexico Public Regulation Commission audit the System prior to the transfer of money, assets and debts of the System to the Authority; the audit was completed in December 2003. By operation of law, functions, appropriations, money records, equipment and other real and personal property pertaining to the System have been transferred to the Authority. All policy-making for the System resides with the Authority. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Authority as a political subdivision of the state.

Effective July 1, 2007, the Authority assumed all management and operation of what was the City Water Utility Department. A new Memorandum of Understanding between the Authority and the City became effective July 1, 2007 and runs through June 30, 2012. Under the new MOU, the Authority operates with greater autonomy from the City while continuing to utilize core central services of the City.

The accompanying financial statements present only the financial position of the Authority at June 30, 2007, and the results of its operations for the year ended June 30, 2007. The Authority is a component unit of the City, and these financial statements are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Authority on a separate Authority basis. Where applicable, the Authority's share of the expense is included (See Notes III A., E., G., and H.).

The Authority for financial reporting purposes consists of funds, departments, and programs for which the Authority is financially accountable. Criteria indicating financial accountability include, but are not limited to, the following:

1. (a) appointment by the Authority of a majority of voting members of the governing body of an organization, and (b) ability of the Authority to impose its will on the daily operations of an organization such as the power to remove appointed members at will; to modify or approve budgets, rates or fees, or to make other substantive decisions; or
2. provision by the organization of specific financial benefits or burdens to the Authority; or
3. fiscal dependency by the organization on the Authority such as from the lack of authority to determine its budget or issue its own bonded debt without Authority approval.

Based on the foregoing criteria, the Authority does not have relationships with other organizations not included herein, of such nature and significance that exclusion would not render the Authority's financial statements incomplete or misleading.

The accounting policies of the Authority as reflected in the accompanying financial statements conform to generally accepted accounting principles for local governmental units. The more significant of these accounting policies are summarized below.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

B. Measurement focus, basis of accounting, and financial statement presentation

The Authority accounts for all activities to provide water and sewer services for the residents of the City of Albuquerque and outlying areas. These activities include, but are not limited to, administration, operation, maintenance, financing and related debt service, billing and collection. This proprietary type fund provides services, which are intended to be financed primarily through user charges, or activities where periodic determination of net income is appropriate.

The Authority distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Authority'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 nonoperating revenues or expenses. These include investment earnings, interest expense, and transactions that result from nonexchange transactions or ancillary activities.

The Authority is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred regardless of when the related cash flow occurs.

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the Authority applies all applicable Financial Accounting Standards Board pronouncements, which were issued as of November 30, 1989, in accounting and reporting for its operations except for those that conflict with or contradict GASB pronouncements. The Authority does not observe those issued after November 30, 1989.

C. Assets, liabilities, and net assets or equity

1. Cash, investments, and accrued interest

In accordance with City policies, the Authority participates in the City's cash management program that is administered by the City's Treasury Division. A significant portion of cash and investments held by the City is pooled. 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 stated at fair market value. The balance reported as "Cash, Investments, and Accrued Interest" represents the equity of the Authority in the pooled cash, investments, and accrued interest. The Authority's share of the interest earnings on pooled investments is determined by allocating interest to each of the participating funds of the City and the Authority 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 bonded 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 based on a minimum of three bids and/or offers. Certificates of deposit are based on competitive rates for specific maturities.

All investments are valued at quoted market prices. The investment in the State of New Mexico local government investment pool (LGIP) is valued at fair value based on quoted market prices as of the valuation date. 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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1. Cash, investments, and accrued interest, continued

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:

- 1. Repurchase Agreements - 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.*
- 2. U.S. Treasury Obligations - bills, notes, and bonds.*
- 3. Obligations of Federal Agencies or Instrumentalities - interest bearing or discount form.*
- 4. Municipal Bonds - 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:

- 1. Checking Accounts - at insured financial institutions.*
- 2. Certificates of Deposit - 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. Account receivables and unbilled amounts

Account receivables balances do not include an allowance for uncollectible accounts. Water and sewer services are billed on a cycle basis; therefore, amounts for service provided but unbilled as of June 30, 2007, have not been included in accounts receivable or revenue. Such unbilled amounts are not material to the financial position and results of operations of the Authority.

3. Restricted assets

At June 30, 2007, a portion of the Authority's net assets was restricted for revenue bond retirement and debt service and for acquisition and construction of capital assets.

4. Capital assets

State of New Mexico Administrative Code requires state and local governmental agencies to capitalize fixed assets costing in excess of \$5,000. Currently, the Authority 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 Authority 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. Software is capitalized when acquired. Donated capital assets are recorded at estimated fair market value at the date of donation.

Construction costs of water and sewer lines that are reimbursed by users or that are financed directly or indirectly by developers and property owners are capitalized and recorded as capital contributions.

Depreciation on capital assets is provided using the straight-line method over the estimated useful lives of the assets as follows:

<i>Buildings and improvements</i>	<i>15 - 50 years</i>
<i>Improvements other than buildings</i>	<i>15 - 33 years</i>
<i>Machinery and equipment</i>	<i>3 - 13 years</i>

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4. Capital assets, continued

Interest expense is capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted. The amount of capitalized interest is determined using the interest cost of the borrowings less any interest earned on investments acquired with the proceeds of the related tax-exempt borrowings from the date of the borrowings until the assets are ready for their intended use.

5. Deferred charges and other assets

Purchased water rights are recorded at cost and are being amortized using the straight-line method over one hundred years.

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.

6. Accrued vacation and sick leave pay

The employees of the Authority may accumulate limited amounts of vacation pay that is payable to the employee upon termination or retirement. Vacation costs are recognized as a liability when earned by the employee. The amount reported in the current liability section is approximately equal to the amount of vacation leave paid in the current fiscal year. The balance is reported in the noncurrent liabilities section of the statement of net assets.

The employees of the Authority may accumulate limited amounts of sick leave that is payable to the employee upon termination or retirement. Sick leave costs are recognized when vested or taken, whichever occurs first. The amount reported in the current liability section is the amount recognized for those employees who are currently eligible to retire as of the end of the fiscal year. The balance is reported in the noncurrent liabilities section of the statement of net assets.

7. Long-term obligations

Long-term obligations used to finance capital acquisitions, payable from the Authority's revenues, are recorded in the Authority's Statement of Net Assets.

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.

8. Statement of cash flows

For the purposes of the statement of cash flows, all pooled cash and investments (including restricted assets) are considered to be cash equivalents, although there are investments with a maturity in excess of three months when purchased, because they have 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. Purchases and sales of these investments are reported as cash flows from investing activities.

9. 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.

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10. Net assets, restrictions, and designations

The net assets of the Authority are reported in the following three categories:

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

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

11. 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. Stewardship, Compliance and Accountability

The budgetary data is prepared consistent with the basis of accounting described in Note I. B. The annual budget is formulated by the Authority's Management and submitted to the Water Authority Board by April 1 for the fiscal year commencing July 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 Water Authority Board. After Board approval of the budget, a formal appropriation and encumbrance system to control expenditures is maintained by the City's financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Authority's budget by program. For fiscal year 2007, expenditures may not exceed appropriations at the fund level.

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III. Detailed Notes

A. Cash and investments

As discussed in Note I.C.1., the Authority participates in the City's pooled investment program. Cash and investments are held by the City and balances are allocated between the City and Authority. 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)				
	<u>Govern- mental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>	<u>Component Unit</u>
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 NMFA in State of New Mexico local government investment pool	-	-	-	-	505
Held in trust by Wells Fargo Bank in U.S. Treasury Fund	112	2,411	-	2,523	-
Held in trust by Bank of Albuquerque in U.S. Treasury Fund	392	-	-	392	-
Total investments	<u>460,831</u>	<u>178,883</u>	<u>13,802</u>	<u>653,516</u>	<u>94,785</u>
Bank accounts at book balances	<u>(8,942)</u>	<u>9,517</u>	<u>(1,264)</u>	<u>(689)</u>	<u>19,570</u>
Accrued interest receivable	813	305	26	1,144	177
Imprest cash funds	279	16	-	295	-
Total other	<u>1,092</u>	<u>321</u>	<u>26</u>	<u>1,439</u>	<u>177</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 452,981</u>	<u>\$ 188,721</u>	<u>\$ 12,564</u>	<u>\$ 654,266</u>	<u>\$ 114,532</u>
Current cash, investments and accrued interest:					
Cash, investments and accrued interest	\$ 317,947	\$ 35,215	\$ 10,789	363,951	\$ 30,825
Cash and 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	<u>403,621</u>	<u>81,620</u>	<u>10,789</u>	<u>496,030</u>	<u>70,071</u>
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 and accrued interest	<u>49,360</u>	<u>107,101</u>	<u>1,775</u>	<u>158,236</u>	<u>44,461</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 452,981</u>	<u>\$ 188,721</u>	<u>\$ 12,564</u>	<u>\$ 654,266</u>	<u>\$ 114,532</u>

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A. Cash and investments, continued

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, \$1,647,000 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.

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A. Cash and investments, continued

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
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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	<u>100</u>	<u>100</u>	<u>100</u>	<u>200</u>	<u>5</u>	<u>100</u>
Total uninsured public funds	1,064	215	1,735	2,349	-	418
50% collateral requirement	<u>532</u>	<u>108</u>	<u>867</u>	<u>1,175</u>	<u>-</u>	<u>209</u>
Pledged securities, fair value	<u>1,509</u>	<u>918</u>	<u>88</u>	<u>2,388</u>	<u>-</u>	<u>396</u>
Pledged in excess of requirement	<u>\$ 977</u>	<u>\$ 810</u>	<u>\$ (779)</u>	<u>\$ 1,213</u>	<u>\$ -</u>	<u>\$ 187</u>

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B. Accounts and notes receivable

Accounts receivable include water and sewer billings that are considered 100% collectible since a lien can be placed on the customer's property for nonpayment. Due from Governments are primarily Federal and State grants receivable of \$1.4 million for capital improvements. Also included are miscellaneous receivables. At June 30, 2007 there was no allowance for uncollectible accounts on miscellaneous receivables. See Note J for discussion of New Mexico Utilities Litigation.

Notes receivable are for utility expansion charges. With the exception of an allowance for uncollectible accounts for North Valley connections charges in the amount of (\$96,531) all of the remaining receivable is deemed collectible. The borrower is allowed to pay the Authority for the extension of water and sewer lines over a ten year period at 7% interest.

C. Capital assets

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

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

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

	<u>Total Interest</u>	<u>Interest Related to Tax-Exempt Borrowing</u>	<u>Net</u>
Interest expense	\$ 23,557,031	\$ 7,668,347	\$ 15,888,684
Interest income	12,464,361	<u>3,528,058</u>	8,936,303
Capitalized interest		<u>\$ 4,140,289</u>	

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D. Long-term obligations

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

	<u>Outstanding</u>			<u>June 30, 2007</u>	<u>Payable in one year</u>
	<u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>		
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 pay	2,565,378	2,783,100	2,626,862	2,721,616	2,177,292
Less deferred amounts:					
Unamortized bond discounts	(2,275,500)	-	(1,499,271)	(776,229)	-
Unamortized bond premiums	6,930,313	3,354,412	1,336,780	8,947,945	-
Bond refunding costs	<u>(1,121,474)</u>	<u>-</u>	<u>(355,831)</u>	<u>(765,643)</u>	<u>-</u>
	469,871,175	139,527,512	46,737,991	562,660,696	37,161,870
Current portion of long-term obligations	<u>(37,790,196)</u>	<u>-</u>	<u>(628,326)</u>	<u>(37,161,870)</u>	<u>-</u>
Total	<u>\$ 432,080,979</u>	<u>\$ 139,527,512</u>	<u>\$ 46,109,665</u>	<u>\$ 525,498,826</u>	<u>\$ 37,161,870</u>

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.

Authority Revenue Bonds outstanding at June 30, 2007, are as follows:

<u>Issue</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Call Provisions</u>
June 1, 1990 A	\$ 22,730,000	6.00% to 7.20%	July 1, 2008	100% beginning July 1, 2000
August 1, 1995	4,975,000	3.625% to 6.00%	July 1, 2007	Not callable
June 15, 1997	11,325,000	4.75%	July 1, 2009	100% beginning July 1, 2006
January 1, 1999A	52,885,000	3.80% to 5.25%	July 1, 2011	Not callable
December 1, 2001	24,175,000	3.00% to 4.50%	July 1, 2013	100% beginning July 1, 2010
October 25, 2005	132,985,000	3.50% to 5.00%	July 1, 2025	100% beginning July 1, 2015
July 12, 2006	<u>133,390,000</u>	4.25% to 5.165%	July 1, 2026	100% beginning July 1, 2016
Total outstanding	382,465,000			
Unamortized:				
Premiums	8,947,945			
Discounts	(765,643)			
Deferred refunding costs	<u>(776,229)</u>			
Net outstanding	<u>\$ 389,871,073</u>			

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D. Long-term obligations, continued

Included in the outstanding Authority Water and Sewer Revenue Bonds are the June 1, 1990A issue, capital appreciation bonds with a par amount of \$32,580,000, net of original issue discount of \$22,588,290. In accordance with the bond agreement, the payment for these bonds is not provided for in the current revenue rate structure; however, interest in the amount of \$21,812,060 has accreted over the life of the bond as of June 30, 2007 of which \$3,179,000 was for the current year, and; accordingly, the interest expense and related liability are included in the financial statements of the Authority. The accreted interest is included as a reduction of the unrestricted net assets.

Loan Agreements – Parity Obligations

On April 12, 2002, the Authority executed a loan agreement with the New Mexico Finance Authority (NMFA) for \$450,000 with an average interest rate of 3.6%. The proceeds from the loan were to be used to construct chemical storage facilities as part of the Authority's drinking water disinfection system. However, it has been determined that the Authority will not need this financing and is working with NMFA to close this loan. Final payment is due on July 1, 2014. The balance due at June 30, 2007 was \$322,580.

On May 10, 2002, the Authority executed a loan agreement with the New Mexico Finance Authority for \$2,450,000 with an average interest rate of 2.8%. The proceeds from the loan were used for the construction of a drinking water disinfection system in the Authority's water and wastewater utility system. In January, 2007, the Authority had drawn \$1,578,306 against this loan. It was determined that the remaining balance of \$847,194 was not to be used for the aforementioned project. The New Mexico Finance Authority resized the loan to \$1,594,092 (total draws on the loan plus \$15,783 for cost of issuance). The new loan has an interest rate of 2.75%. Final payment is due on July 1, 2012. The balance due at June 30, 2007 was \$879,425.

On April 11, 2003, the Authority executed a loan agreement with the New Mexico Finance Authority for \$3,600,000 with an interest rate of 2.0%. The proceeds from the loan will be used for the construction of a pump station in the Authority's water and wastewater utility system. Final payment is due on January 1, 2016. The balance due at June 30, 2007 was \$2,778,735.

On October 13, 2004, the Authority executed a loan agreement with the New Mexico Finance Authority for \$118,415,000 with an average interest rate of 3.3%. The proceeds of the loan will be used to fund the San Juan Chama surface water diversion project and various capital improvements to the water and wastewater system. Final payment is due May 1, 2024. The balance due at June 30, 2007 was \$108,265,000.

On October 28, 2005, the Authority executed a loan agreement with the New Mexico Finance Authority for \$20,000,000 with an average interest rate of 4.8%. The proceeds of the loan will be used to fund the San Juan Chama surface water diversion project. Final payment is due May 1, 2025. The balance due at June 30, 2007 was \$20,000,000.

Loan Agreements – Subordinate Obligations

On October 1, 1994, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing line of credit agreement of \$7,907,582 to a long-term notes payable with an interest rate of 5%. On March 12, 2001, the Authority refinanced the note payable, which lowered the interest rate to 3%. Annual payments are \$567,926, with a final payment due on July 1, 2013. The balance due at June 30, 2007, was \$3,076,564.

On October 1, 1995, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing \$4,000,000 line of credit agreement. The note payable of \$2,521,846 (total draws on the line of credit at the time of project completion) had an interest rate of 5%. On March 12, 2001, the Authority refinanced the note payable, which lowered the interest rate to 3%. Final payment is due on July 1, 2008. The balance due at June 30, 2007, was \$270,979.

On July 1, 1997, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing line of credit agreement of \$9,000,000 to a long-term note payable with an interest rate of 5%. On March 12, 2001, the Authority refinanced the note payable, which lowered the interest rate to 3%. Final payment is due on July 1, 2008. The balance due at June 30, 2007, was \$967,075.

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Loan Agreements – Subordinate Obligations, continued

On June 14, 2000, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing line of credit agreement of \$15,000,000 to a long-term note payable with an interest rate of 4% with annual payments of \$1,587,627. Final payment is due on July 1, 2012. The balance due at June 30, 2007, was \$7,067,835.

On May 20, 2005, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing \$12,000,000 line of credit agreement. The note payable of \$9,627,877 (total draws on the line of credit plus accrued interest of \$242,655) has an interest rate of 3%. The note requires annual payments of \$647,145, due on May 20th each year. Final payment is due May 20, 2025. The balance due at June 30, 2007, is \$8,900,511.

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 at June 30, 2007, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 34,984,578	\$ 22,278,071	\$ 57,262,649
2009	37,797,259	21,684,966	59,482,225
2010	37,066,268	20,398,700	57,464,968
2011	33,582,382	18,784,111	52,366,493
2012	35,662,687	17,343,857	53,006,544
2013 - 2017	140,797,887	67,663,385	208,461,272
2018 - 2022	132,366,616	38,318,158	170,684,774
2023 - 2027	<u>100,275,330</u>	<u>10,495,150</u>	<u>110,770,480</u>
	<u>\$ 552,533,007</u>	<u>\$ 216,966,398</u>	<u>\$ 769,499,405</u>

E. Defined benefit pension plan

Substantially all of the City of Albuquerque's and the Authority'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.

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E. Defined benefit pension plan, continued

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.

<u>Group Covered</u>	<u>Employee</u>		<u>Employer</u>	
	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>
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
		<u>\$ 35,297</u>		<u>\$ 32,162</u>

In accordance with Chapter 10, Article 11, Section 5 NMSA 1978, the Authority 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. For the fiscal years ended June 30, 2007, 2006, and 2005, the Authority paid \$3,749,974, \$3,543,493, and \$3,410,470 respectively in contributions to PERA for the year.

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 City employees and Authority employees covered by PERA for the year ended June 30, 2007, was \$256,972,704; the total payroll for all employees of the City and Authority was \$290,194,007.

F. Defined contribution retirement plan

On March 31, 2004, the Authority Board approved a Declaration of Trust for a 401 qualified defined contribution retirement plan through ICMA Retirement Corporation for Authority employees. Under this defined contribution plan, an employee's eventual retirement benefit is based upon the total contributions made by the employee and employer, plus investment earnings on those contributions. The plan meets the requirements of Section 401(a) of the Internal Revenue Code. Employees have a 30-day election period from the date of initial eligibility to elect to participate in the plan. Participation is not mandatory. Under the plan the employer contributes 19.01% of earnings for full time employees and 7% for part time employees. A mandatory employee participation contribution is required with employees to make a one-time election to contribute one of 3.29%, 5%, 7%, 10% for full time employees and 7% for part time employees. Total contributions to the plan were \$37,584 in fiscal year 2007 of which \$32,039 were from employer contributions and \$5,545 were from employee contributions.

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G. Post employment benefits

In addition to providing pension benefits described in Notes E. and F, the City and the Authority provide 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 City (including Authority employees) for 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.

For the fiscal years ended June 30, 2007, the Authority remitted \$253,155, in employer contributions and \$126,578 in employee contributions to the Retiree Health Care Authority.

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H. Risk management

The City and the Authority are 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 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

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H. Risk management, continued

The Authority paid \$4,925,658 for its share of the risk management charges for the year.

I. Transactions with other government agencies

As discussed in Note I-A, the Authority has entered into a Joint Powers Agreement as well as a Memorandum of Understanding with the City and Bernalillo County for operations of the utility. In addition to the risk management charges reported in Note III-I, the Authority engaged in the following transactions with the City. The Authority paid the City for the following services:

Franchise fees	\$ 5,111,853
Administrative indirect overhead, including accounting and other central services	2,324,676
Warehouse supplies	2,643,353
Fleet management services	1,748,120
Telephone	383,797
Office services and parking	<u>58,186</u>
Total	<u>\$ 12,269,985</u>

The City paid the Authority for water and sewer services in the amount of: \$ 6,657,619

The Authority also made the following payments for franchise fees to:

Bernalillo County	<u>\$ 306,133</u>
Village of Los Ranchos	<u>\$ 40,431</u>

J. Commitments and contingencies

Construction Commitments. At June 30, 2007, the uncompleted construction and other commitments in the Authority was \$112,820,405. This amount will be paid from assets restricted for construction, improvements and replacements, or from operating revenues.

Federal and State Grant Commitments. The Authority has received a number of Federal and State grants for specific purposes. These grants are subject to audit, which may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. Based on prior experience, Authority management believes that such disallowances, if any, will not be material. Single audit information for the Authority is included in the Comprehensive Annual Financial Report for the City of Albuquerque.

Contingencies. In the normal course of business, the Authority is subject to certain contingent liabilities and unasserted claims. These contingencies are evaluated in light of their probability of being asserted and the estimability 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. It is the opinion of Authority management that the ultimate resolution of other litigation will not have a material effect on the financial position of the Authority.

The Authority received a permit from the Office of the State Engineer for diverting and consuming San Juan-Chama water in the amount of 96,200 acre-feet per year on July 8, 2004. A group of environmentalists and farmers filed an appeal of the surface diversion permit in State District Court. The State District Court ruled in favor of the Authority on all counts. The Authority has been issued a Notice of Appeal to the New Mexico Court of Appeals on the permit. The Authority anticipates a hearing could be scheduled by Spring 2008. The Authority received a Record of Decision on the National Environmental Policy Act process on June 1, 2004 and an approved Biological Opinion from the Fish and Wildlife Service in February 2004. The Biological Opinion

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J. Commitments and contingencies, continued

concludes that the effects of the San Juan-Chama Project will not jeopardize the continued existence of the Rio Grande Silvery Minnow and will not adversely affect critical habitat.

New Mexico Utilities Litigation: New Mexico Utilities ("NMU"), a for-profit water and sewer carrier, serves approximately 17,000 residents located in northwest Albuquerque. On July 1, 2004, the Authority increased the sewer rates charged to NMU based on a rate study that concluded that (1) NMU was not paying its cost of service for sewer services, and (2) City and County residents were subsidizing the sewer rates paid by NMU. The Authority believed the rate disparity put an unfair burden on some residents in the City and County which could be alleviated through the rate increase. The Authority also withdrew its permission to allow NMU to use certain Authority return flow credits. The Authority, and the City as its predecessor, earned the return flow credits through the release of treated wastewater into the water system (the Rio Grande River). NMU responded with a lawsuit against the Authority seeking restoration of the previous sewer rates and restoration of return flow credits which the Authority had suspended, which lawsuit remains pending in New Mexico State District Court. During the pendency of its lawsuit with the Authority, NMU has refused to pay the higher rate and currently owes an outstanding balance of approximately \$4,800,000 in delinquent fees to the Authority, in addition to approximately \$1,000,000 of other outstanding amounts NMU owes the Authority. In response to the delinquency, the Authority filed various counterclaims seeking a court declaration that NMU has illegally withheld the funds. Dispositive motions were heard by the Court on April 26, 2007. On May 2, 2007, the court issued a Letter Decision finding in favor of the Authority's position that NMU owed the delinquent sums. The Letter Decision also denied all motions regarding return flow credits. On May 18, 2007, NMU filed a motion requesting the Court to reconsider its decision. The Court declined to reconsider its decision but certified the matter for immediate review by the New Mexico Court of Appeals. NMU and the Authority submitted briefs to the Court of Appeals in November and December 2007. The Court of Appeals denied the appeal on January 4, 2008. The case is set for trial in the District Court in October 2008.

On January 19, 2007, the Authority and the City of Rio Rancho, New Mexico filed a lawsuit in State District Court to acquire NMU. NMU answered the lawsuit, filed several dispositive motions and countersued the Authority. NMU's counterclaim against the Authority alleges the Authority violated its due process rights in its efforts to acquire NMU. NMU motions sought dismissal of the case on the basis that the Authority was not lawfully created, neither Rio Rancho nor the Authority had sufficient powers to acquire NMU and that negotiations conducted in an attempt to acquire NMU were not conducted in good faith. Rio Rancho and the Authority responded to the motions and filed additional dispositive motions seeking declarations concerning their respective acquisition authority and the good faith negotiation efforts. A hearing was held on the majority of the motions on May 30, 2007. On July 18, 2007, the Court issued its Decision and Order denying all NMU motions and granting the Authority's cross motion requesting a finding that negotiations had been conducted in good faith. The Court found that the Authority was lawfully created and that the Authority and Rio Rancho had the legal authority to acquire NMU. NMU filed a motion subsequent to the Decision and Order requesting the Court to forward the matter directly to an appellate court. The Court granted the motion, however, the New Mexico Court of Appeals declined to hear NMU's application. Given the Court's ruling on the motions, the only remaining issue, the value of NMU, is set for trial in September 2008. In January 2008, the City of Rio Rancho moved to withdraw from the case as a Petitioner and instead requested the Court to indicate the City as a Plaintiff-Intervener. Rio Rancho's motion continues to indicate its support for the eminent domain acquisition. Also in January 2008, Ranch Joint Venture, a development interest, requested the Court to grant it party status as a defendant. The Authority opposes the developers' intervention.

K. Subsequent events

On September 25 2007, the Authority closed on the New Mexico Finance Authority Public Project Revolving Fund Loan (2007) in the amount of \$77,005,000. The proceeds will be used for several purposes. \$3.748 million will be used for reuse projects that will treat water to be used for irrigation purposes in the southern part of the Authority's service area. \$48.045 million will be used over two years for the Authority's basic capital program, and the remaining \$25.212 million will be used for the completion of the San Juan Chama Surface Water Treatment project.

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June 30, 2007

K. Subsequent events , continued

On July 1, 2007 the Authority will implement a Water Supply Charge. This charge will be assessed by the Authority at the time of meter sale or application for service to any new water customer requesting connection to the water system in an area not located within the Authority's service area requiring a development agreement. The proceeds from this charge will be dedicated and restricted to the development of new water resources, rights or supplies to serve the beneficiary new customers outside of the service area consistent with the Authority's Regional Water Plan and Water Resources Management Strategy and other guiding principles adopted by the Authority. The amount of the WSC shall be adjusted annually by building cost or construction cost indices (BCI or CCI) as published by ENR. The WSC fee does not apply to non-potable water service.

Also, on July 1, 2007, the Authority will create a Rate Reserve Fund for reserving water and sewer revenues in a dedicated fund for the purpose of offsetting declines in rate revenue and to mitigate future rate increases. This Rate Reserve Fund is established at \$1 million. The Rate Reserve Fund may be increased annually based on excess funding over \$10 million in the Authority's Working Capital Balance. The Rate Reserve Fund will be capped at \$5 million. Any expenditure from this Rate Reserve Fund will require an appropriation approved by the Authority Board.

The Authority will also close on a \$55,630,000 Joint Water and Sewer System Improvement Revenue Bonds Series 2008A in the early part of April 2008. The proceeds will be used for several purposes. \$12.252 million will be used for reuse projects that will treat water to be used for irrigation purposes in the southern part of the Authority's service area. The remaining \$43.378 million will be used for the completion of the San Juan Chama Surface Water Treatment project.

Concurrent with the closing of Revenue Bonds Series 2008A noted above, the Authority received upgraded bond ratings. The Authority received an AAA rating, upgraded from AA from Standards and Poor's. Moody's Investors Service continues to rate the Authority at a Aa2 stable outlook and an AA rating from Fitch Ratings with a positive outlook.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL
Year ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Charges for services	\$ 116,268,000	\$ 116,268,000	\$ 116,058,761	\$ (209,239)
City water service expansion charges	17,000,000	17,000,000	12,516,234	(4,483,766)
Sustainable water supply	26,332,000	26,332,000	24,975,068	(1,356,932)
Interest on investments	900,000	900,000	6,657,272	5,757,272
Valley system connection charges	50,000	50,000	87,720	37,720
City system connection charges	60,000	60,000	688,196	628,196
Other miscellaneous	1,718,000	1,695,000	1,356,086	(338,914)
Transfer from non-restricted cash to cash restricted for debt service	<u>59,347,000</u>	<u>59,347,000</u>	<u>59,347,000</u>	<u>-</u>
Total revenues	<u>221,675,000</u>	<u>221,652,000</u>	<u>221,686,337</u>	<u>34,337</u>
Expenses:				
Water plant facility R&M	10,355,000	10,356,393	9,873,909	482,484
Water plant facility operations	9,667,000	10,047,033	10,420,082	(373,049)
Water distribution facility maintenance	4,268,000	4,268,000	4,114,186	153,814
Strategic Support	1,333,000	1,333,000	1,195,873	137,127
Utility Development	1,569,000	1,569,000	1,320,074	248,926
Wastewater treatment	11,363,000	11,387,957	10,552,984	834,973
Wastewater Pretreatment / Lab	3,552,000	3,556,440	3,005,990	550,450
Wastewater collection	6,127,000	6,151,441	6,427,782	(276,341)
Sustainable water supply	872,000	872,000	239,280	632,720
North I-25 reuse	399,000	399,000	350,332	48,668
Customer services	4,273,000	4,303,842	4,172,653	131,189
Finance	6,021,000	6,021,000	5,672,658	348,342
San Juan-Chama	2,035,000	2,035,000	2,565,886	(530,886)
Water resources, engineering and planning	4,546,000	4,569,205	2,720,709	1,848,496
Information systems	2,551,000	2,608,764	2,259,887	348,877
Low income utility credit	250,000	250,000	225,748	24,252
Water Authority	776,000	776,000	1,067,759	(291,759)
Debt service	60,959,000	60,959,000	63,957,314	(2,998,314)
Transfer to cash restricted for debt service	42,444,000	42,444,000	42,444,000	-
Transfer from cash restricted for debt service to cash restricted for capital acquisition	16,000,000	16,000,000	16,000,000	-
Transfer to cash restricted for capital acquisition	10,000,000	10,000,000	10,000,000	-
Sustainable water supply - transfer to cash restricted for debt service	16,903,000	16,903,000	16,903,000	-
Sustainable water supply - transfer to cash restricted for capital acquisition	-	-	-	-
Administrative services	<u>7,743,000</u>	<u>7,743,000</u>	<u>8,025,416</u>	<u>(282,416)</u>
Total expenses	<u>224,006,000</u>	<u>224,553,075</u>	<u>223,515,522</u>	<u>1,037,553</u>
Excess of revenues over (under) expenses	<u>\$ (2,331,000)</u>	<u>\$ (2,901,075)</u>	<u>(1,829,185)</u>	<u>\$ 1,071,890</u>

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - BUDGET TO ACTUAL, continued
Year ended June 30, 2007

	<u>Actual</u>
Revenues (expenses) not budgeted:	
Interest on investments of restricted assets	5,480,785
Gain (loss) on disposition of property and equipment	(51,231)
Depreciation	(55,925,877)
Amortization of deferred bond costs	(305,887)
Amortization on water rights contract	(392,290)
Amortization on premium and discounts	1,336,780
Amortization of deferred amounts on refundings	(355,831)
Assets transferred to another agency	(118,151)
Accreted interest on capital appreciation bonds	(1,499,271)
Unrealized gain on investments	326,304
Miscellaneous expenses	(684,219)
Lease of water rights	<u>155,816</u>
Net expenses over revenues not budgeted	<u>(52,033,072)</u>
Changes to conform to generally accepted accounting principles:	
Principal payments on bonds and loan agreements	42,298,480
Transfer to cash restricted for capital acquisition	26,000,000
Capital contributions	15,448,469
Capital outlay	1,489,380
Capitalized interest on long-term debt	4,140,289
Capital contributions budgeted as revenues	<u>(775,916)</u>
Net changes to conform to generally accepted accounting principles	<u>88,600,702</u>
Change in net assets	<u>\$ 34,738,445</u>

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STATISTICAL SECTION - UNAUDITED

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ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
LAST TEN FISCAL YEARS ⁽¹⁾
(In thousands of dollars)

	1998	1999	2000
Operating revenues:			
Charges for services	\$ <u>88,999</u>	\$ <u>99,031</u>	\$ <u>103,606</u>
Operating expenses:			
Salaries and fringe benefits	23,543	23,227	23,946
Professional services	1,636	1,389	987
Utilities	7,486	7,973	7,419
Supplies	1,305	1,056	1,541
Travel	10	21	35
Fuels, repairs, and maintenance	7,271	6,949	7,287
Contractual services	3,140	2,963	2,866
Other operating expenses	8,735	9,060	9,327
Depreciation	40,411	42,205	41,670
Amortization - water rights	<u>303</u>	<u>303</u>	<u>303</u>
Total operating expenses	<u>93,840</u>	<u>95,146</u>	<u>95,381</u>
Operating income (loss)	<u>(4,841)</u>	<u>3,885</u>	<u>8,225</u>
Nonoperating revenues (expenses):			
Interest on investments	2,573	1,447	3,863
Gain (loss) on disposition of capital assets	151	3	(194)
Interest expense	(16,369)	(16,834)	(13,026)
City water service expansion charges	9,363	11,968	10,780
Bond issue costs incurred ⁽²⁾	(361)	(1,177)	-
Bond issue amortization ⁽²⁾	-	-	(13)
Equipment purchased for outside agency or fund	-	-	-
Expenses incurred for outside agency or fund	-	-	-
Other	<u>320</u>	<u>321</u>	<u>457</u>
Total nonoperating revenues (expenses)	<u>(4,323)</u>	<u>(4,272)</u>	<u>1,867</u>
Income (loss) before capital contributions and transfers	<u>(9,164)</u>	<u>(387)</u>	<u>10,092</u>
Capital contributions	<u>18,133</u>	<u>15,197</u>	<u>15,062</u>
Change in net assets	<u>8,969</u>	<u>14,810</u>	<u>25,154</u>
Net assets, July 1	<u>375,681</u>	<u>384,650</u>	<u>399,460</u>
Net assets, June 30	<u>\$ 384,650</u>	<u>\$ 399,460</u>	<u>\$ 424,614</u>

(1) 1996 - 2003 data is obtained from the City of Albuquerque's Comprehensive Annual Financial Report for the Joint Water and Sewer Fund. Some reclassification of prior year numbers have been made to conform to the Authority's presentation beginning with FY 2004.

(2) In 2000, the City adopted the policy of capitalizing bond issue costs and amortizing the costs over the life of the bond issue.

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>\$ 107,771</u>	<u>\$ 113,781</u>	<u>\$ 117,681</u>	<u>\$ 130,420</u>	<u>\$ 126,622</u>	<u>\$ 138,202</u>	<u>\$ 141,034</u>
25,062	25,433	24,760	25,479	26,796	27,200	30,151
1,065	754	236	388	1,139	522	572
8,244	7,581	7,924	8,306	7,935	8,575	7,844
1,957	1,307	1,529	2,425	2,939	3,567	4,493
25	13	5	26	24	19	36
7,875	7,169	7,524	7,387	7,252	7,322	9,494
3,313	3,145	2,637	3,886	4,422	2,907	3,937
10,152	10,743	10,786	12,498	12,909	14,058	14,058
37,070	39,355	40,843	42,877	46,410	51,934	55,926
<u>332</u>	<u>348</u>	<u>359</u>	<u>370</u>	<u>374</u>	<u>383</u>	<u>392</u>
<u>95,095</u>	<u>95,848</u>	<u>96,603</u>	<u>103,642</u>	<u>110,200</u>	<u>116,487</u>	<u>126,903</u>
<u>12,676</u>	<u>17,933</u>	<u>21,078</u>	<u>26,778</u>	<u>16,422</u>	<u>21,715</u>	<u>14,131</u>
2,502	2,032	1,073	419	1,549	5,019	8,936
102	66	19	10	(356)	7	(51)
(14,046)	(12,206)	(12,278)	(10,428)	(8,406)	(8,619)	(15,889)
10,909	11,909	14,433	15,112	12,404	17,255	12,516
-	-	-	-	-	-	-
(93)	(35)	(97)	(130)	(143)	(313)	(305)
-	-	(332)	(242)	-	-	-
-	-	-	(296)	(161)	(278)	(118)
<u>3,649</u>	<u>544</u>	<u>4,938</u>	<u>203</u>	<u>1,390</u>	<u>570</u>	<u>70</u>
<u>3,023</u>	<u>2,310</u>	<u>7,756</u>	<u>4,648</u>	<u>6,277</u>	<u>13,641</u>	<u>5,159</u>
15,699	20,243	28,834	31,426	22,699	35,356	19,290
<u>12,182</u>	<u>14,995</u>	<u>22,178</u>	<u>28,288</u>	<u>20,849</u>	<u>16,854</u>	<u>15,448</u>
27,881	35,238	51,012	59,714	43,548	52,210	34,738
<u>424,614</u>	<u>452,495</u>	<u>487,733</u>	<u>538,745</u>	<u>598,459</u>	<u>642,007</u>	<u>694,217</u>
<u>\$ 452,495</u>	<u>\$ 487,733</u>	<u>\$ 538,745</u>	<u>\$ 598,459</u>	<u>\$ 642,007</u>	<u>\$ 694,217</u>	<u>\$ 728,955</u>

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
SELECTED WATER/SEWER SYSTEM STATISTICS
LAST TEN CALENDAR YEARS

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Estimated Population (Service Area)	479,454	485,569	491,723	497,916
Number of Meters (Billed)	141,775	144,502	147,605	149,883
Estimated Persons Per Meter	3.38	3.36	3.33	3.32
Annual Pumpage (1,000 Gallons)	35,810,000	36,841,000	35,627,000	37,101,000
Annual Water Billed (1,000 Gallons)	31,494,743	32,288,181	31,384,676	33,074,427
Average Daily Pumpage (Gallons)	98,109,589	100,934,247	97,608,219	101,646,575
Peak Day Pumpage (Gallons)	174,500,000	181,560,000	174,430,000	169,500,000
Average Daily Production Per Meter (Gallons)	692	698	661	678
Well Pumping Capacity (per 24 Hour Period)	293,000,000	293,000,000	293,000,000	294,000,000
Storage Capacity (Gallons)	206,600,000	206,600,000	211,000,000	211,000,000
Fire Hydrants	10,930	11,270	11,570	11,905
Water Reclamation Treatment Capacity	76,000,000	76,000,000	76,000,000	76,000,000
Number of Miles of Lines ⁽¹⁾				
- Water	2,520	2,520	2,520	2,520
- Sewer	1,600	1,650	1,690	1,730

⁽¹⁾ Estimated

Source: City of Albuquerque, Water Utility Department.

2001	2002	2003	2004	2005	2006
482,577	489,248	499,684	512,288	525,347	530,600
153,245	156,502	160,135	162,536	167,737	171,130
3.15	3.13	3.12	3.15	3.13	3.10
35,750,000	34,760,000	34,734,000	32,600,000	32,799,000	31,384,000
31,670,527	30,836,908	30,886,343	29,235,684	29,551,899	27,942,376
97,945,205	95,232,877	95,161,644	89,315,068	89,860,274	85,983,561
163,600,000	160,140,000	163,500,000	151,000,000	153,500,000	149,940,000
639	609	594	549	536	502
294,000,000	294,000,000	294,000,000	294,000,000	294,000,000	294,000,000
211,000,000	211,000,000	211,000,000	211,000,000	211,000,000	211,000,000
12,175	12,413	12,771	13,062	13,435	14,093
76,000,000	76,000,000	76,000,000	76,000,000	76,000,000	76,000,000
2,520	2,520	2,520	2,520	2,520	2,520
1,780	1,780	1,820	1,820	1,820	1,820

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
DEMOGRAPHIC STATISTICS

Population

US Census		Bernalillo County	% Inc/Dec from Prev. Yr.	City of Albuquerque	% Inc/Dec from Prev. Yr.	State of New Mexico	% Inc/Dec from Prev. Yr.
2006	**	615,099	0.10%	504,949	2.12%	1,954,599	1.49%
2005	**	614,508	2.34%	494,477	2.32%	1,925,985	1.33%
2004	**	600,439	1.74%	483,249	2.21%	1,900,620	1.23%
2003	**	590,153	1.35%	472,814	1.72%	1,877,598	1.05%
2002	**	581,118	1.94%	464,011	2.15%	1,855,353	1.32%
2001	**	571,440	0.92%	454,291	1.03%	1,832,783	0.50%
2000	*	553,002	0.84%	449,480	6.87%	1,821,656	0.76%
1999	**	551,298	0.31%	420,578	-0.19%	1,808,082	0.81%
1998	**	547,997	0.60%	421,384	0.11%	1,793,484	1.05%
1990	*	100,244	-76.15%	386,988	16.24%	1,515,069	16.26%
1980	*	420,262	33.09%	332,920	36.16%	1,303,143	28.13%
1970	*	315,774	20.43%	244,501	21.53%	1,017,055	6.94%
1960	*	262,199	NA	201,189	NA	951,023	NA

* Source: Bureau of the Census

** Source: Bureau of Business and Economic Research-estimates

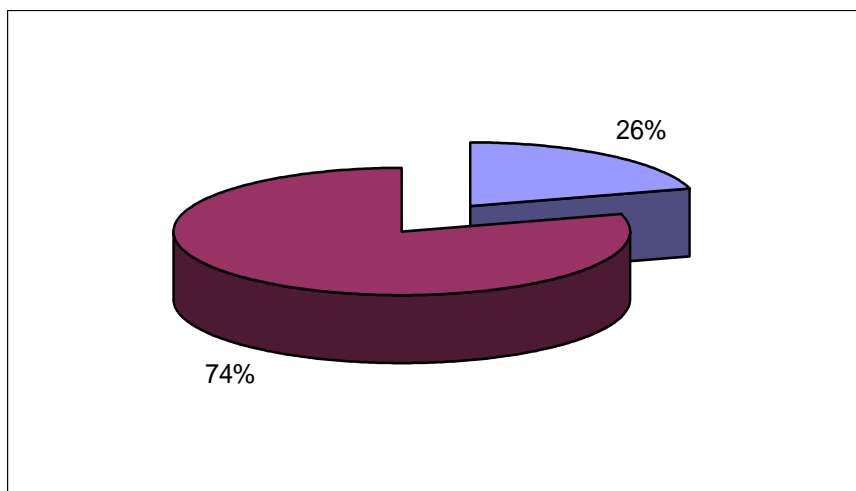
Unemployment

Calendar Year	-----Bernalillo County-----			-----Unemployment Rates-----		
	Civilian Labor Force	Number Employed	Number Unemployed	Bernalillo County	New Mexico	United States
2006	313,406	301,179	12,227	3.90%	4.20%	4.60%
2005	316,477	304,008	12,469	3.90%	4.40%	4.90%
2004	312,140	279,810	14,330	4.60%	5.60%	5.40%
2003	315,152	299,843	15,309	4.90%	5.70%	6.10%
2002	308,907	294,946	13,961	4.52%	5.40%	5.80%
2001	305,169	293,339	10,947	3.59%	4.80%	4.80%
2000	303,158	275,575	9,819	3.24%	5.00%	4.00%
1999	286,588	280,785	11,013	3.84%	5.60%	4.20%
1998	293,804	277,035	13,019	4.43%	6.20%	4.50%
1997	289,403	267,621	12,368	4.27%	6.20%	4.90%

Source: New Mexico Department of Labor

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
TOP TEN MAJOR EMPLOYERS

2007				
	<u>Employer</u>	<u>Type of Business</u>	<u>Number of Employees</u>	<u>% of County Employment</u>
1.	Kirtland AFB (Civilian) includes Sandia National Labs, DOE and contractors on or off of base.	Defense	35,690	9.07%
2.	Albuquerque Public School	Education	14,480	3.68%
3.	University of New Mexico	Education	14,295	3.63%
4.	Presbyterian	Hospital	6,670	1.69%
5.	City of Albuquerque	Government	6,500	1.65%
6.	State of New Mexico	Government	5,485	1.39%
7.	Lovelace Sandia Health Systems	Hospital	5,200	1.32%
8.	Kirtland AFB (Military Active Duty)	Defense	4,860	1.23%
9.	UNM Hospital	Hospital	4,596	1.17%
10.	Intel Corporation	Semiconductor Manufacturer	<u>3,500</u>	<u>0.89%</u>
	Total		<u>101,276</u>	<u>25.73%</u>
	Total Non-Ag Civil and Military Employees		<u>393,622</u>	<u>100.00%</u>



Source: Albuquerque Economic Development, Inc.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
WATER AND WASTEWATER USERS BY CLASS AND METER SIZE
LAST TEN FISCAL YEARS

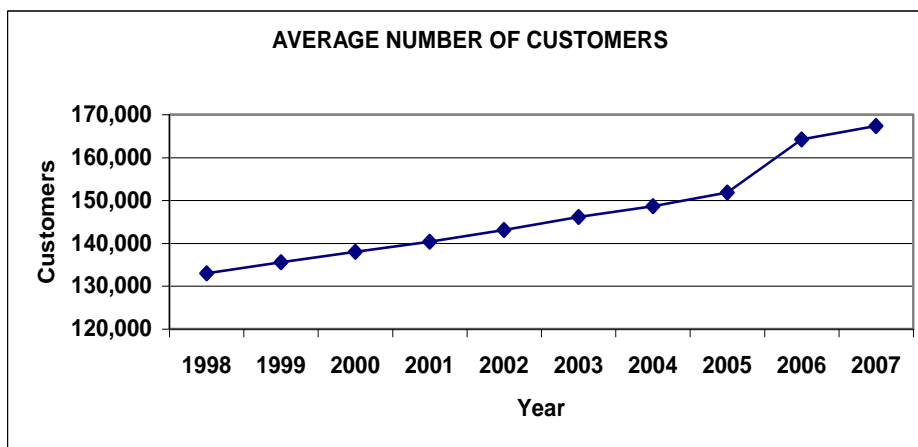
History of Water Users by Class

<u>Class</u>	<i>Average Number of Customers by Fiscal Year</i>									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Residential	126,111	128,738	131,618	134,014	137,081	140,347	146,656	148,974	151,089	152,563
Multi-Family ⁽¹⁾	-	-	-	-	-	-	-	-	6,812	7,565
Commercial	12,511	12,636	12,767	12,871	12,952	13,033	13,388	13,304	10,065	10,049
Institutional	1,590	1,618	1,638	1,660	1,683	1,712	1,836	1,853	1,981	1,983
Industrial	<u>141</u>	<u>129</u>	<u>127</u>	<u>125</u>	<u>124</u>	<u>121</u>	<u>122</u>	<u>114</u>	<u>113</u>	<u>110</u>
Total	<u>140,353</u>	<u>143,121</u>	<u>146,150</u>	<u>148,670</u>	<u>151,840</u>	<u>155,213</u>	<u>162,002</u>	<u>164,245</u>	<u>170,060</u>	<u>172,270</u>

History of Water Users by Meter Sizes

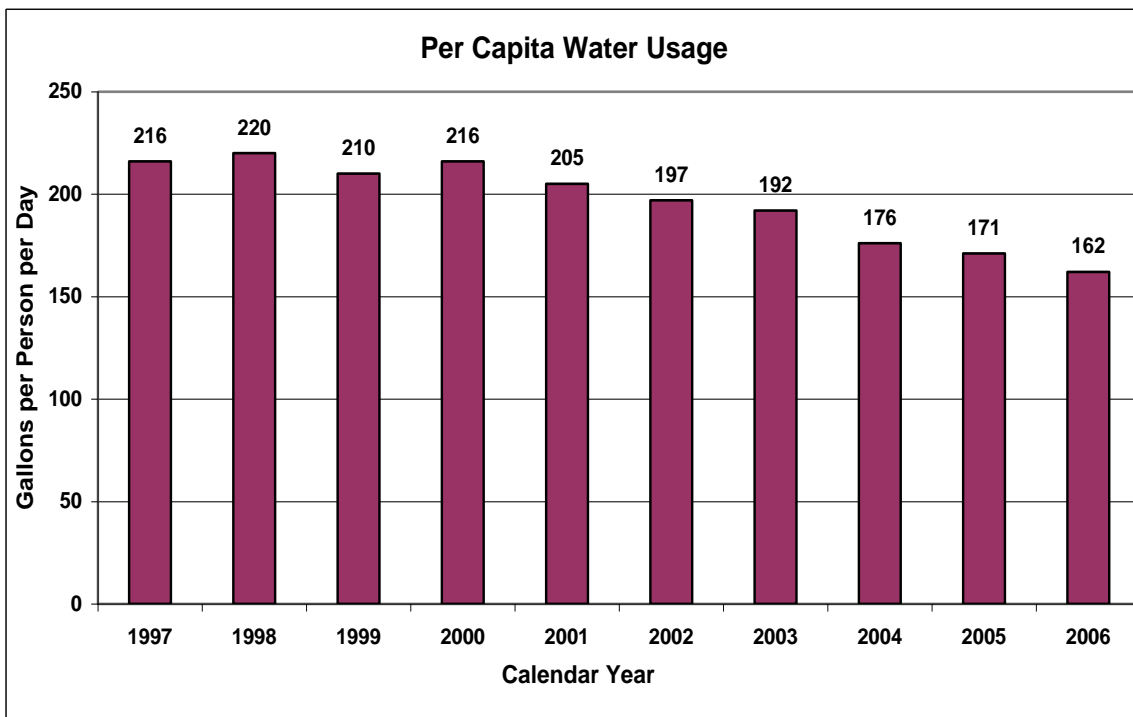
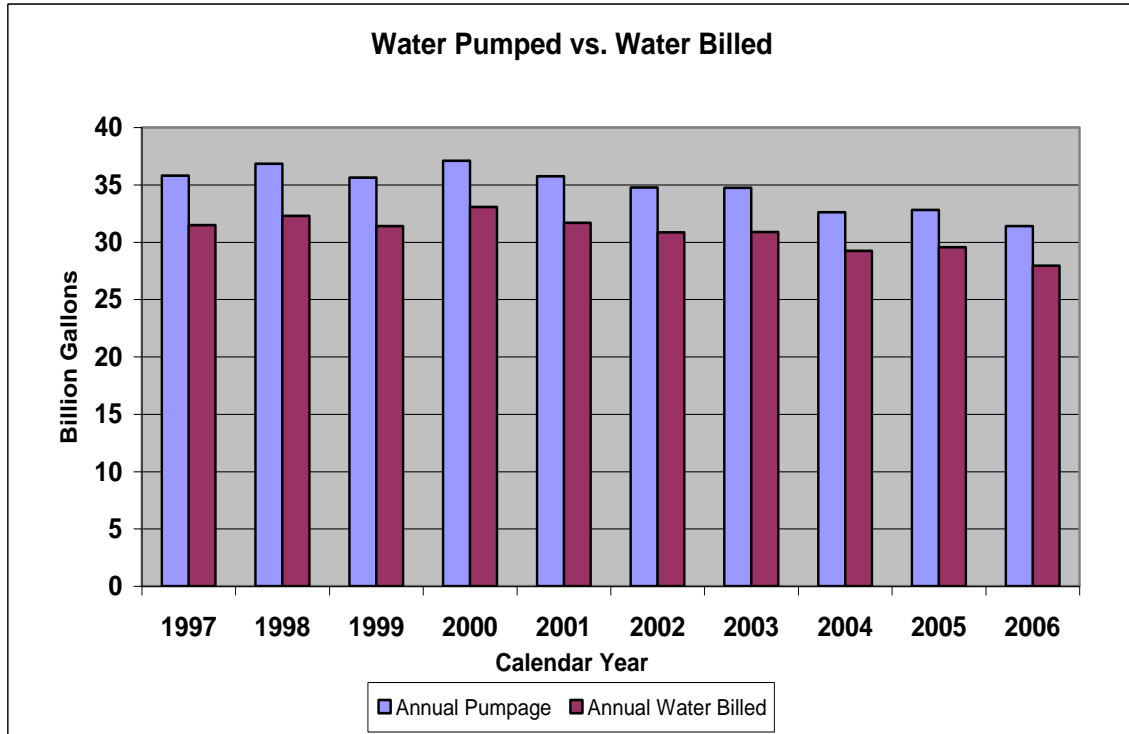
<u>Meter Size</u>	<i>Average Number of Customers by Fiscal Year</i>									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
¾"	115,818	118,730	121,854	124,523	128,192	132,387	139,351	142,018	146,842	149,846
1" and 1 ¼ "	20,290	20,076	19,899	19,692	19,153	18,321	17,863	17,588	17,773	17,581
1 ½ "	1,805	1,817	1,838	1,846	1,854	1,847	1,854	1,879	1,945	1,955
2"	1,740	1,769	1,822	1,868	1,892	1,905	1,958	1,997	2,509	1,816
3"	378	401	404	406	410	412	524	419	654	733
4"	228	233	238	242	246	247	311	251	244	246
6"	54	55	55	55	55	55	73	52	52	53
8" and over	<u>40</u>	<u>40</u>	<u>40</u>	<u>38</u>	<u>38</u>	<u>39</u>	<u>68</u>	<u>41</u>	<u>41</u>	<u>40</u>
Total	<u>140,353</u>	<u>143,121</u>	<u>146,150</u>	<u>148,670</u>	<u>151,840</u>	<u>155,213</u>	<u>162,002</u>	<u>164,245</u>	<u>170,060</u>	<u>172,270</u>

⁽¹⁾ The Authority started using this class of user in 2006.



Source: Albuquerque Bernalillo County Water Utility Authority

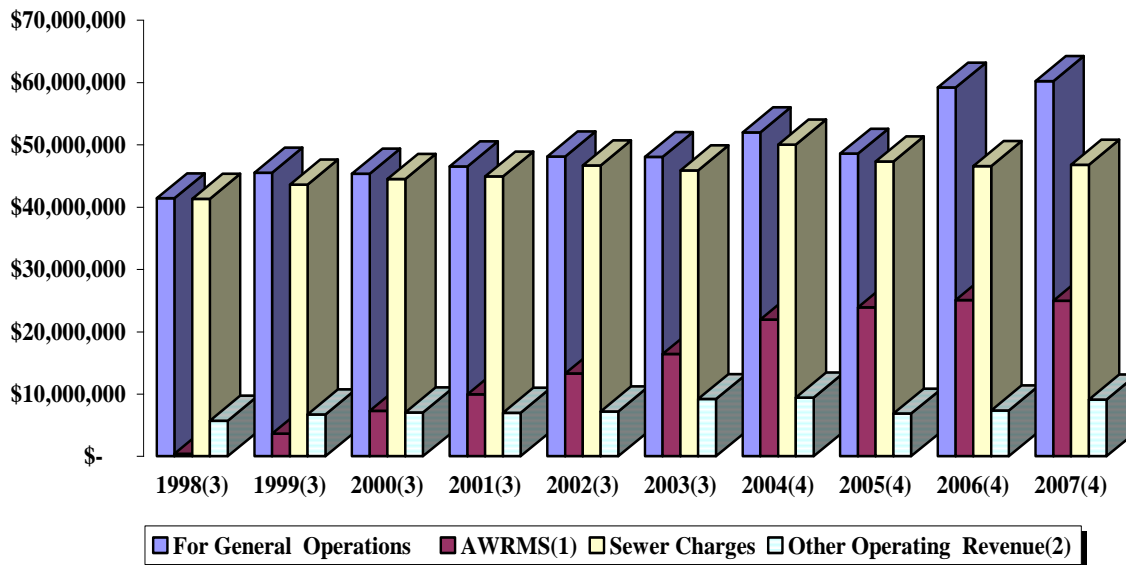
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
WATER CONSUMPTION
LAST TEN CALENDAR YEARS



Source: Albuquerque Bernalillo County Water Utility Authority

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
REVENUE FROM WATER AND SEWER CHARGES AND OTHER OPERATING REVENUE
LAST TEN FISCAL YEARS

Fiscal Year	Revenue from Water Charges		Revenue From Sewer Charges	Other Operating Revenue ⁽²⁾	Total Operating Revenue
	For General Operations	For AWRMS ⁽¹⁾			
1998 ⁽³⁾	\$ 41,392,409	\$ 393,705	\$ 41,333,109	\$ 5,728,507	\$ 88,847,730
1999 ⁽³⁾	45,515,854	3,610,515	43,605,325	6,704,614	99,436,308
2000 ⁽³⁾	45,346,424	7,310,019	44,487,321	7,051,933	104,195,697
2001 ⁽³⁾	46,504,223	9,954,245	44,898,231	6,966,656	108,323,355
2002 ⁽³⁾	48,115,849	13,276,044	46,691,595	7,188,885	115,272,373
2003 ⁽³⁾	48,027,213	16,410,278	45,893,219	9,185,099	119,515,809
2004 ⁽⁴⁾	51,968,803	21,950,195	50,012,413	9,437,552	133,368,963
2005 ⁽⁴⁾	48,560,930	23,904,227	47,310,366	6,846,660	126,622,183
2006 ⁽⁴⁾	59,172,344	25,095,852	46,563,188	7,371,006	138,202,390
2007 ⁽⁴⁾	60,186,959	24,975,068	46,771,690	9,100,112	141,033,829



(1) These revenues are attributable to rate increases adopted by City Council to finance capital costs and operating expenses to implement the Albuquerque Water Resource Management Strategy (AWRMS).

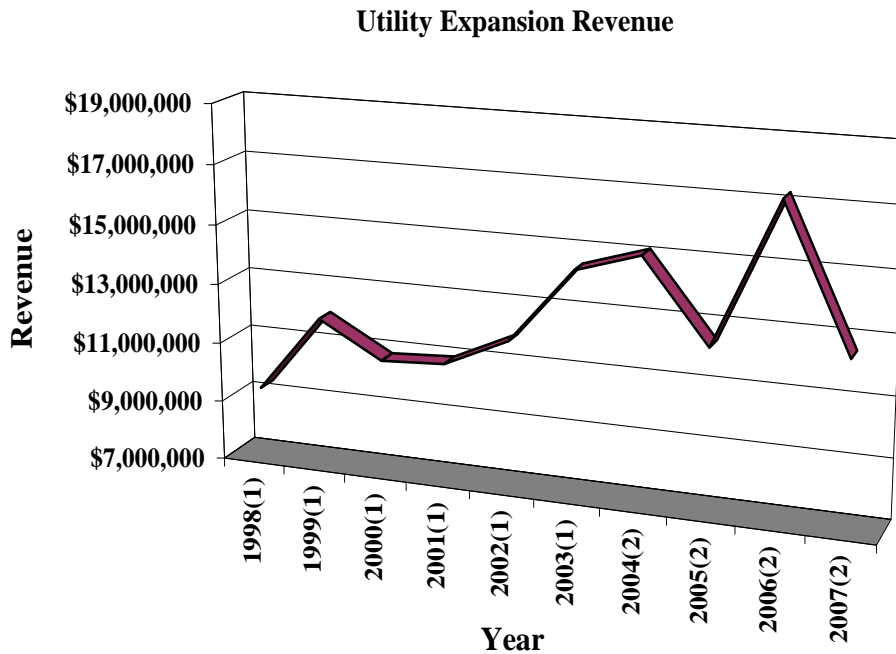
(2) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.

(3) Source: City of Albuquerque Comprehensive Annual Financial Report.

(4) Source: Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
REVENUE FROM UTILITY EXPANSION CHARGES
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Total Utility Expansion Charge Revenues</u>
1998(1)	\$ 9,362,686
1999(1)	11,967,761
2000(1)	10,780,053
2001(1)	10,908,556
2002(1)	11,908,616
2003(1)	14,432,966
2004(2)	15,111,935
2005(2)	12,404,189
2006(2)	17,254,474
2007(2)	12,516,234

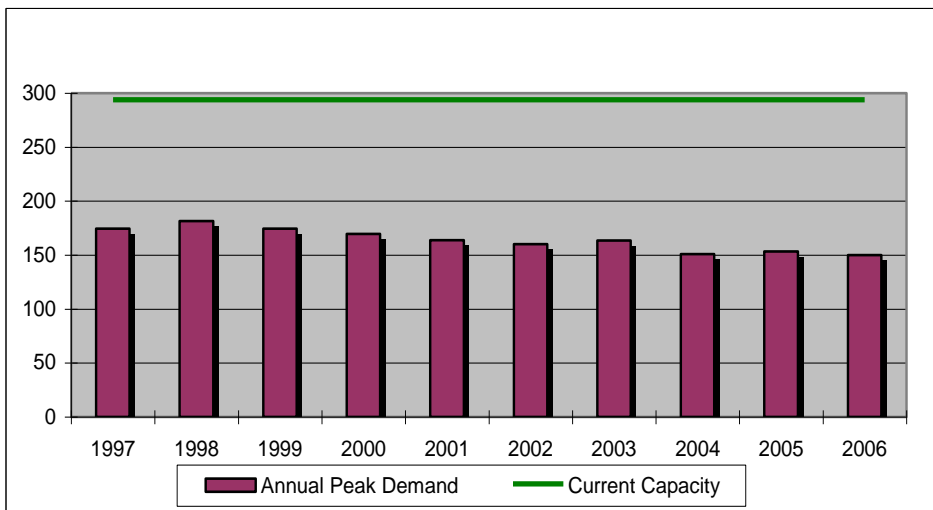


Source: (1) Albuquerque Comprehensive Annual Financial Report.
(2) Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Reports.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
WATER SYSTEM ANNUAL PEAK DEMAND AND TOP TEN CUSTOMERS

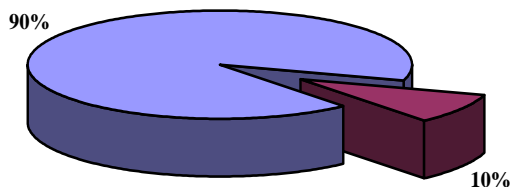
WATER SYSTEM ANNUAL PEAK DEMAND
(calendar year)

- ◆ *Current system peak demand of 150 MGD*
- ◆ *Current system peak capacity of 294 MGD*
- ◆ *System's current peak demand is 51% of capacity*



WATER SYSTEM TOP 10 CUSTOMERS
(fiscal year)

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2007 Revenue</u>	<u>% of Total Revenue</u>
1. City of Albuquerque	1,643,328	\$ 4,424,281	5.20%
2. Albuquerque Public Schools	355,548	1,165,378	1.37%
3. Tanoan Country Club	169,836	363,870	0.43%
4. University of New Mexico Physical Plant	169,551	735,085	0.86%
5. Lovelace Health	111,154	400,589	0.47%
6. Sumitomo Sitix	105,147	219,222	0.26%
7. Presbyterian Health	77,010	529,545	0.62%
8. Four Hills Mobile Home Park	66,054	225,774	0.27%
9. University of New Mexico Hospital	60,996	258,769	0.30%
10. Albuquerque Academy	56,495	138,100	0.16%
Total		\$ 8,460,613	9.93%
Total Revenue for System		\$ 85,162,027	

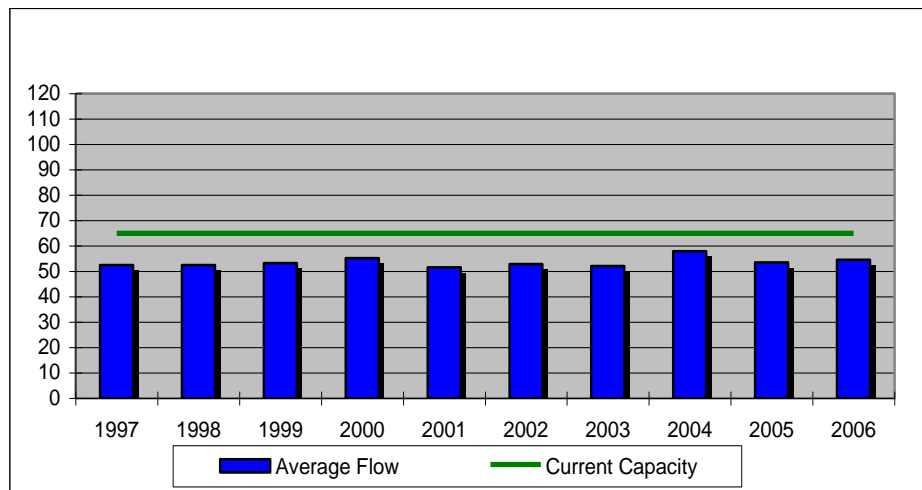


Source: Albuquerque Bernalillo County Water Utility Authority

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
WASTEWATER SYSTEM ANNUAL AVERAGE FLOW AND TOP TEN CUSTOMERS

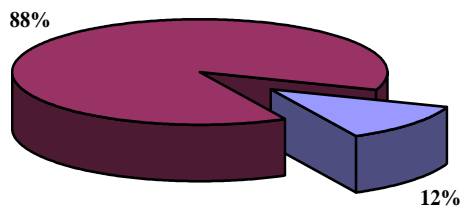
WASTEWATER SYSTEM ANNUAL AVERAGE FLOW
(calendar year)

- ◆ *Current system average flow of 58 MGD*
- ◆ *Current system peak capacity of 68 MGD*
- ◆ *System's current average flow is 85% of capacity*



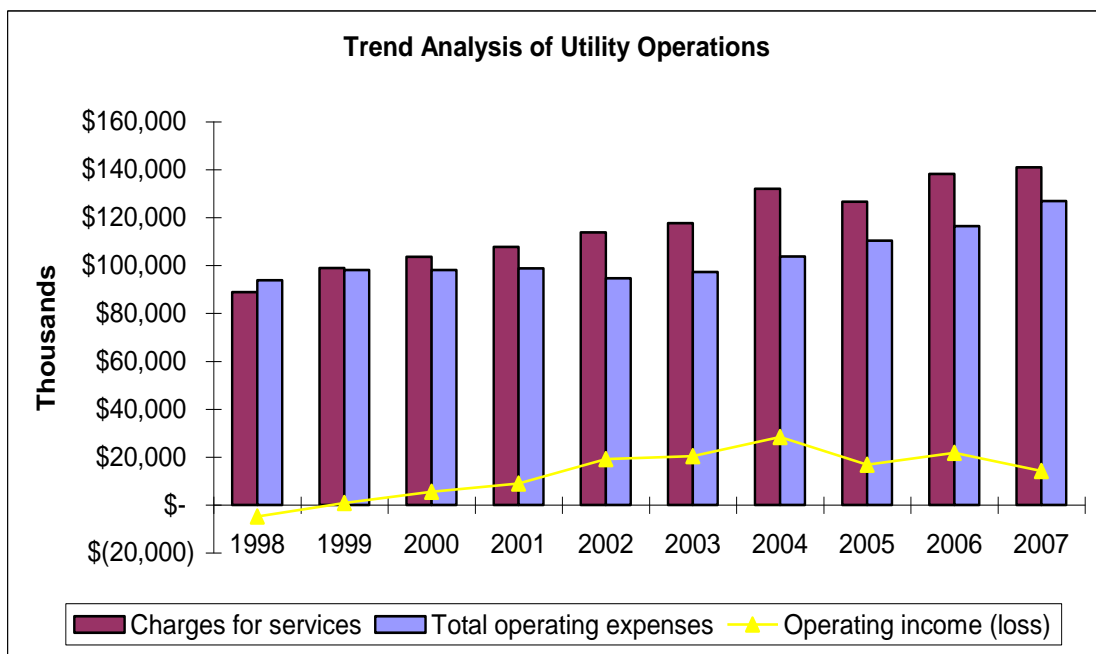
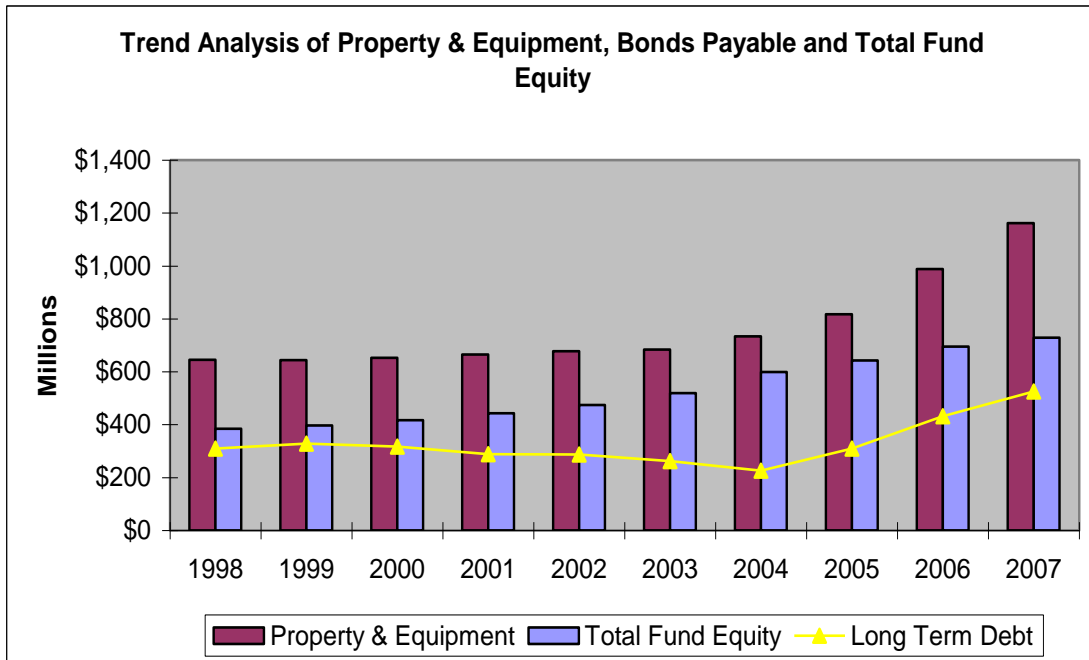
WASTEWATER SYSTEM TOP 10 CUSTOMERS
(fiscal year)

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2007 Revenue</u>	<u>% of Total Revenue</u>
1. New Mexico Utilities	2,842,160	\$ 2,893,074	6.19%
2. Kirtland Air Force Base	788,400	858,882	1.84%
3. UNM Physical Plant	398,715	446,444	0.95%
4. City of Albuquerque	202,543	426,594	0.91%
5. Albuquerque Public Schools	152,708	432,123	0.92%
6. Lovelace Health	98,525	123,087	0.26%
7. Sandia Peak Services	91,339	72,956	0.16%
8. Sumitomo Sitix	71,437	93,093	0.20%
9. University of New Mexico Hospital	70,496	158,517	0.34%
10. Four Hills Mobile Home Park	61,099	92,617	0.20%
Total		\$ 5,597,387	11.97%
Total Revenue for System		\$ 46,771,690	



Source: Albuquerque Bernalillo County Water Utility Authority

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MISCELLANEOUS TREND ANALYSIS
LAST TEN FISCAL YEARS



Source: Albuquerque Bernalillo County Water Utility Authority

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ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
REVENUE BOND DEBT SERVICE COVERAGE
LAST TEN FISCAL YEARS
(In thousands of dollars)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Water Utility Authority Revenue Bonds ⁽¹⁾				
Revenues	\$ 102,802	\$ 114,446	\$ 118,818	\$ 125,002
Expenses ⁽²⁾	50,122	52,971	53,114	57,815
Available for debt service	52,680	61,475	65,704	67,187
Debt service	31,343	38,599	43,511	44,703
Debt service coverage ratio	1.7	1.6	1.5	1.5

⁽¹⁾ 1998 - 2003 data is obtained from the City of Albuquerque's Comprehensive Annual Financial Report for the Joint Water and Sewer Fund.

⁽²⁾ Not including depreciation, amortization, payments in lieu of taxes, and bad debt expense.

⁽³⁾ As calculated by RBC Capital Markets, Albuquerque, New Mexico; cash basis.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007⁽³⁾</u>	Ratio Required <u>2007</u>
\$	129,425	\$ 139,937	\$ 150,224	\$ 144,074	163,278	162,390	
	55,356	57,315	55,892	59,005	61,932	65,336	
	74,069	82,622	94,332	85,069	101,346	97,054	
	45,919	47,516	49,179	52,279	55,641	61,785	
	1.6	1.7	1.9	1.6	1.8	1.6	1.3

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
NET ASSETS BY COMPONENT
LAST THREE FISCAL YEARS

Components of Net Assets	Fiscal Years		
	2005	2006	2007
Invested in capital assets, net of related debt	\$ 566,451,130	\$ 609,954,619	\$ 666,487,051
Restricted for debt service	11,490,993	12,919,005	6,003,021
Restricted for construction	26,620,816	5,539,537	-
Unrestricted	37,443,588	65,803,570	56,465,104
Total Net Assets	<u>\$ 642,006,527</u>	<u>\$ 694,216,731</u>	<u>\$ 728,955,176</u>

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
OUTSTANDING DEBT RATIO
LAST THREE FISCAL YEARS

<u>Outstanding Obligations</u>	<u>Fiscal Years</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenue bonds, net	\$ 182,194,318	\$ 289,213,339	\$ 389,871,073
Loan agreements	147,928,325	159,711,796	152,528,704
Water rights contract	19,197,151	18,380,662	17,539,303
Total outstanding obligations	\$ 349,319,794	\$ 467,305,797	\$ 559,939,080
Number of Customers	164,245	170,060	172,270
Average debt per customer	\$ 2,127	\$ 2,748	\$ 3,250
Estimated populations	525,347	530,600	615,100
Per Capita debt	\$ 665	\$ 881	\$ 910
Per capita income ⁽¹⁾	\$ 29,988	\$ 31,434	\$ 33,161

⁽¹⁾ Based on information provided by Bureau of Business and Economic Research (BBER),
University of New Mexico

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
REVENUE RATE COMPARISONS

		Monthly Wastewater Charges								
		-----5/8-Inch Meter-----					2-Inch Meter	4-Inch Meter	8-Inch Meter	
City	Effective Date	Residential	Residential	Residential	Residential	Residential	Non-manuf./	Commercial/	Industrial	Industrial
		0 cf (0 gal)	500 cf (3,740 gal)	1,000 cf (7,480 gal)	1,500 cf (11,220 gal)	3,000 cf (22,440 gal)	Commercial 3,000 cf (22,440 gal)	Light Industrial 50,000 cf (374,000 gal)	1,000,000 cf (7,480,000 gal)	1,500,000 cf (11,220,000 gal)
Albuquerque, NM	07/1/04	\$8.00	\$12.08	\$16.15	\$20.23	\$32.45	\$24.45	\$622.10	\$10,353.60	\$17,448.69
El Paso, TX	03/1/04	9.09	10.23	19.93	20.49	38.73	43.29	625.93	11,590.46	17,614.06
Englewood, CO	01/1/06	11.04	11.04	12.12	19.05	38.10	45.73	647.77	12,955.36	19,433.04
Irving, TX	10/1/04	3.97	8.31	17.82	23.50	47.37	47.68	839.68	16,827.04	25,242.04
Laredo, TX	10/1/97	8.50	8.50	12.08	16.00	28.26	36.94	626.02	19,003.50	28,802.30
Mesa, AZ	08/1/05	8.39	8.80	9.20	9.61	10.82	11.25	121.98	2,432.38	3,648.38
Oklahoma, OK	10/1/05	0.00	14.06	28.15	42.19	84.37	84.37	1,429.37	28,196.72	42,418.72
Salt Lake City, UT	07/1/04	4.96	6.20	12.40	18.60	37.20	37.20	735.00	20,000.00	30,000.00
Scottsdale, AZ	07/1/04	10.88	10.88	14.53	21.30	41.60	40.79	664.10	13,263.04	19,894.06
Wichita, KS	01/1/03	2.96	8.27	13.58	18.89	34.82	34.82	539.62	10,662.81	16,017.79
		Monthly Water Charges								
Albuquerque, NM	07/1/04	\$9.62	\$15.77	\$21.91	\$28.06	\$46.50	\$51.42	\$711.61	\$13,283.54	\$22,396.69
Austin, TX	11/1/04	4.00	9.70	18.27	29.96	91.71	76.71	1,222.26	21,127.60	31,736.90
Denver, CO	01/1/05	4.26	10.66	17.05	23.45	46.52	38.59	598.22	11,507.11	17,328.12
El Paso, TX	03/1/04	4.31	5.48	11.33	16.01	78.20	60.41	1,597.79	40,726.22	67,984.37
Mesa, AZ	08/1/05	9.68	16.94	24.19	31.45	63.34	53.21	751.60	14,605.37	22,044.61
Oklahoma City, OK	10/1/05	4.75	11.89	19.04	26.18	47.61	47.61	737.47	14,358.72	21,502.12
Phoenix, AZ	03/2/05	5.16	6.06	12.48	20.28	43.68	43.68	781.50	15,638.96	23,443.05
San Antonio, TX	01/1/06	6.11	14.90	23.70	33.85	76.70	65.60	993.33	19,071.73	28,859.20
Tulsa, OK	10/1/04	3.85	9.79	17.71	25.63	47.41	42.13	659.15	9,382.79	14,096.46
Tucson, AZ	07/12/04	5.35	10.70	16.05	21.40	76.00	51.25	780.41	15,145.84	22,785.71

Source: Reprinted from 2006 Water and Wastewater Rate Survey, by permission. Copyright © 2007, American Water Works Association.

STATE COMPLIANCE AND OPERATIOANAL FINDINGS

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

05-13 Audit Report Due Date

Condition. The report was not submitted by the due date.

Criteria. Per section 2.2.2.9A (1) (d) NMAC Audit Rule 2006, Requirements for Contracting and Conducting Audits of Agencies, annual audit reports are to be received in the Office of the State Auditor on or before December 1st.

Cause. Staff changes.

Effect. The annual audit report was not submitted to the Office of the State Auditor by the due date.

Recommendation. We recommend that the required approval be obtained in advance of the Office of the State Auditor's due date in order to submit the annual report by the due date.

Management Response. We concur with this finding and are taking actions to prevent this situation in the future.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2007

06-12 Underpayment of gross receipts tax to the State.

Condition. There is a reconciled difference between what the City reported and paid to the State for gross receipts tax and the accrual recorded in the general ledger at June 30, 2007. Cumulative for fiscal year ended June 30, 2007, the Authority underpaid gross receipt taxes by \$175,077.

Criteria. Good accounting practice and strong internal controls include an accurate reconciliation of general ledger accounts to supporting schedules. It also includes the timely payment of gross receipts taxes to avoid interest and penalties

Cause. A new billing system was implemented in 2006. The system automatically records the gross receipts tax when bills are created. The system creates tax liability information. The information is provided to the City for accounting and payment to the State. The City's internal worksheet for calculating the tax due was recording the amount due in error.

Effect. Gross receipts tax was underpaid to the State.

Recommendation. The City should correct the calculation error in the worksheet. Amounts for underpaid taxes should be remitted to the State. In the future, any material differences between the City calculation and the Authority's calculation should be investigated and resolved.

Management Response. The City will take the necessary corrective action to remit the Authority's underpaid taxes.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATUS OF PRIOR AUDIT RECOMMENDATIONS
Year Ended June 30, 2007

05-02 Audit Report Due Date	Repeated
06-12 Gross Receipts Tax Accrual in Refuse and Joint Water Sewer	Revised

ALBUQUERQUE BERNALILLO COUNT WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
EXIT CONFERENCE
June 30, 2007

An exit conference was held on April 10, 2008, and attended by the following:

AUTHORITY PERSONNEL:

Deanna Archuleta
Chair, Water Authority Board

Mark Sanchez
Executive Director

Tom Ortiz
Financial Analyst

Stanley Allred
Finance Manager

Cliff Wintrode
Budget Analyst

MOSS ADAMS PERSONNEL:

Chris Garner
Senior Manager

Amy Myer
Manager

CITY PERSONNEL:

Greg Stricklin
Accounting Officer

Nela Wilkinson
Accounting Systems Coordinator