

COMPREHENSIVE ANNUAL FINANCIAL REPORT

JULY 01
2005

THROUGH

JUNE 30
2006



Albuquerque Bernalillo County
Water Utility Authority

A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO, USA

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

A Component Unit of the City of Albuquerque, New Mexico

COMPREHENSIVE ANNUAL FINANCIAL REPORT

July 1, 2005 through June 30, 2006

Albuquerque Bernalillo County Water Utility Authority
A Component Unit of the City of Albuquerque
Comprehensive Annual Financial Report
Year ended June 30, 2006

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Albuquerque Bernalillo County Water Utility Authority

June 30, 2007

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, 2006. 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 operates under a Memorandum of Understanding (MOU) with the City of Albuquerque (City) whereby the City provides day-to-day management of the utility as well as financial and internal services for the operations of the Authority. The Authority is a component unit of the 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 Auditors' Report, Management's Discussion and Analysis of the Financial Statements, the Authority's Financial Statements for the Fiscal Year ended June 30, 2006, 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 LLP., Certified Public Accountants, has issued an unqualified opinion on the Authority's comprehensive annual financial report for the year ended June 30, 2006. As indicated by the opinion of the Authority'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 auditors' report is located at the front of the financial statements.

Management's Discussion & Analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. 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. All policy-making for the System resides with the Authority. The Authority and the City entered into a Memorandum of Understanding dated January 21, 2004, as amended, under which the City continues to operate the System. A new Memorandum of Understanding becomes effective July 1, 2007 and runs through June 30, 2012. 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.

Members of the Water Authority Board at June 30, 2006:

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

Ex Officio Member at June 30, 2006:

Pablo Rael, Trustee, Village of Los Ranchos

Summary of Local Economy

Bernalillo County includes the City of Albuquerque with a population of about 494,200 compared with 614,500 for the County 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 800,000. 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 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/06</i>	<i>Share of FY/06 Employment</i>	<i>Growth FY/05 to FY/06</i>	<i>Compound Annual Average FY/00 to FY/06</i>
NAICS CATEGORY				
Total Nonfarm Employment (does not include military)	382.87	100%	2.5%	1.4%
Natural Resources and Mining and Construction	29.58	8%	8.8%	4.8%
Manufacturing	23.19	6%	1.9%	-2.4%
Trade, Transportation, and Utilities	67.93	18%	2.2%	0.6%
Information	8.73	2%	-2.9%	-3.6%
Financial Activities	19.34	5%	0.8%	-0.1%
Aggregate of Services	157.27	41%	2.4%	2.2%
Professional and Business Services	61.13	16%	1.9%	1.0%
Educational and Health Services	47.16	12%	3.2%	4.1%
Leisure and Hospitality	36.93	10%	2.6%	1.9%
Other Services	12.04	3%	1.8%	1.8%
Government	76.83	20%	1.9%	1.9%
MILITARY	6.759	NA	1%	0.6%

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 4.7% in FY/06. 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. The City and Bernalillo County are well positioned to attract new investment by suppliers, customers, and other producers. The national labs are a strength for the Albuquerque economy. Sandia National Laboratories (SNL) has devoted a great deal of research to terrorism and homeland security and the mission to protect the nuclear weapons arsenal. The micro-systems technology, or nano-technology, for which SNL is well known, may provide many novel and inexpensive answers to medical and materials sciences. The labs expertise and technology is also becoming more readily available to the private sector.

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 2006 budget provided the financial basis of operation for the Authority and the Water Utility Department through June 30, 2006. 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 2006, it is at the fund level that expenditures may not exceed appropriations. Outstanding encumbrances at June 30, 2006 have been reappropriated in fiscal year 2007.

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 \$738.2 million at June 30, 2006. The Authority had an average of \$220.2 million invested in the City's investment pool. There was a significant increase in the Authority's average investment for fiscal year 2006 due to borrowings for the San Juan Chama drinking water project. The City portfolio average yield for fiscal year 2006 was 3.3252%. Interest earned by the Authority totaled \$7.3 million for fiscal year 2006.

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 2006 were \$5.39 million compared to transfers in the prior year of \$4.49 million. Total claim reserves (current and long-term), including the Authority, were \$50.95 million as of June 30, 2006, a \$.55 million increase from \$50.4 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 will become effective on July 1, 2007. The transition will move employees formerly under the City to the Authority. In addition the Authority and the City have entered into a new Memorandum of Understanding (MOU) that becomes effective July 1, 2007. Under the new MOU, the Authority will operate with greater autonomy from the City while continuing to utilize core central services of the City.

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

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The Authority also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal year beginning July 1, 2006. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, 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,



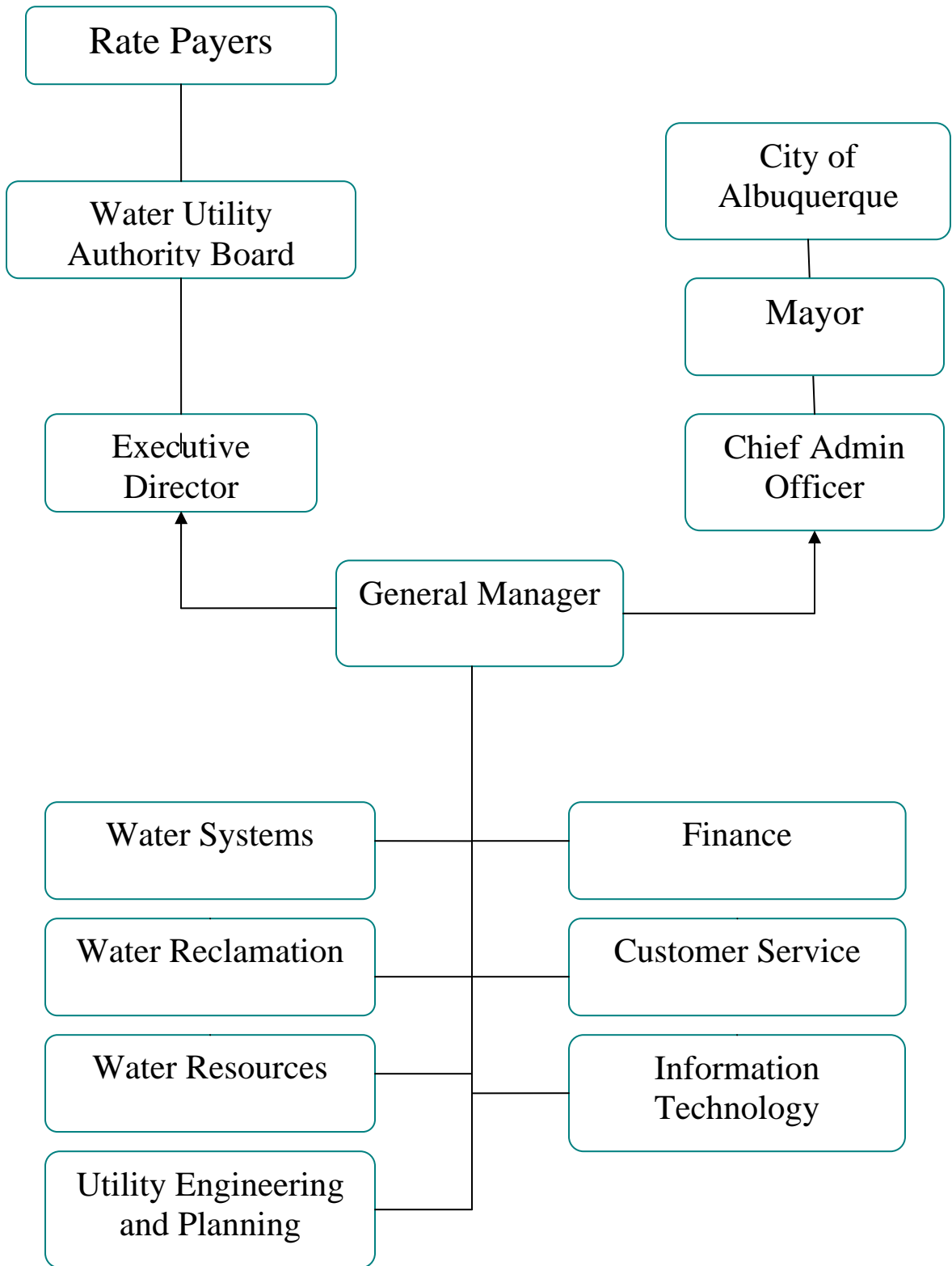
Mark S. Sanchez
Executive Director



Tom Ortiz
Financial Analyst

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Albuquerque Bernalillo County Water Utility Authority



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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, 2006, as listed in the table of contents. We have also audited the budgetary comparison as of, and for the year ending June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion 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.

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, 2006, 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, 2006, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report for the City of Albuquerque dated July 2, 2007, on our consideration of the Authority'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

Albuquerque Bernalillo County
Water Utility Authority

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
August 16, 2007

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

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, 2006. 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 2006 by \$694.2 million (net assets). Of this amount, \$65.8 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 \$52.2 million during the year.

The Authority's total long-term obligations increased by \$121.9 million (39.2%) during the current year. Long-term debt increased by \$121.4 million and additions to accrued vacation, sick leave and deferred revenue increased by \$.5 million.

Cash Basis

During the fiscal year, major sources of cash were provided by operating activities \$72.5 million, service expansion charges \$16 million, proceeds from debt borrowing \$157.2 million, investment income \$7.8 million and capital grants \$1 million. Major uses of cash during the fiscal year were for acquisition and construction of capital assets \$196.8 million and debt service \$55.1 million including \$42.1 million in principal and \$13.0 million in interest payments. \$27 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.

Other Information

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

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>2006</u>	<u>2005</u>	<u>Percent Change 2005 – 2006</u>
Assets:			
Current and other assets	\$ 211,720	\$ 204,260	3.7
Capital assets, net	<u>988,535</u>	<u>817,229</u>	<u>21.0</u>
Total Assets	<u>1,200,255</u>	<u>1,021,489</u>	<u>17.5</u>
Liabilities:			
Current and other liabilities	73,080	68,388	6.9
Long-term bonds and notes payable	431,428	310,014	39.2
Other non-current liabilities	<u>1,530</u>	<u>1,080</u>	<u>41.7</u>
Total Liabilities	<u>506,038</u>	<u>379,482</u>	<u>33.3</u>
Net Assets:			
Invested in capital assets, net of debt	609,955	566,451	7.7
Restricted	18,458	38,112	(51.6)
Unrestricted	<u>65,804</u>	<u>37,444</u>	<u>75.7</u>
Total Net Assets	<u>\$ 694,217</u>	<u>642,007</u>	<u>8.1</u>

At the close of the fiscal year ended June 30, 2006, assets exceeded liabilities by \$694.2 million. The largest portion, 88%, 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 \$43.5 million in fiscal year 2006. 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.

At the end of fiscal year 2006, the Authority had positive balances in all three categories of net assets.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

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)		
	<u>2006</u>	<u>2005</u>	<u>Percent Change 2005 – 2006</u>
Operating revenues:			
Water charges including reuse	\$ 62,451	\$ 51,357	21.6
High consumption water surcharges	4,363	4,051	7.7
Sewer charges	46,558	47,310	(1.6)
Strategy implementation fee	<u>24,830</u>	<u>23,904</u>	<u>3.9</u>
Total charges for services	<u>138,202</u>	<u>126,622</u>	<u>10.9</u>
Operating expenses:			
Water plant maintenance	9,897	9,141	8.3
Water plant operations	8,526	7,823	9.0
Water distribution maintenance	3,274	3,614	(9.4)
Wastewater treatment	9,097	9,214	(1.3)
Wastewater pretreatment / lab	2,895	3,012	(3.9)
Wastewater collection	5,448	5,239	4.0
Customer services	3,772	3,411	10.6
Finance	6,133	5,298	15.8
San Juan Chama / Strategy Implementation	11	1,343	(99.2)
Strategic support	1,313	1,063	23.5
Utility development	983	894	9.9
Information systems	1,309	1,674	(22.8)
Low income utility credit	187	267	(30.0)
Water Authority	685	580	18.1
Water resources management	2,717	3,287	(17.3)
North I-25 reuse	374	212	76.4
Administrative services paid to City of Albuquerque	7,549	7,345	2.8
Depreciation	51,934	46,409	11.9
Amortization	<u>383</u>	<u>374</u>	<u>2.4</u>
Total operating expenses	<u>116,487</u>	<u>110,200</u>	<u>5.7</u>
Operating income	21,715	16,422	32.2
Non-operating revenues (expenses):			
Utility expansion charges	17,254	12,404	39.1
Interest on investments	5,019	1,549	224.0
Interest expense	(8,619)	(8,406)	2.5
All other	<u>(13)</u>	<u>730</u>	<u>(100.0)</u>
Income before capital contributions and transfers	35,356	22,699	55.8
Capital contributions	<u>16,854</u>	<u>20,849</u>	<u>(19.2)</u>
Change in net assets	52,210	43,548	19.9
Net assets, July 1	<u>642,007</u>	<u>598,459</u>	<u>7.3</u>
Net assets, June 30	\$ <u>694,217</u>	\$ <u>642,007</u>	<u>8.1</u>

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Analysis of Changes in Net Assets

Water revenue of \$62.2 million is an increase of \$11.2 million compared to fiscal year 2005, with water residential sales at \$30.9 million, an increase of \$8.2 million or 36%, this is due to precipitation levels below normal in fiscal year 2005. The Authority pumped approximately 2.6 billion gallons more water in FY2006 versus FY2005. Annual precipitation of 6.93 inches was 5.26 inches less than fiscal year 2005 and below the average rainfall of 8.50 inches.

San Juan Chama Strategy Implementation revenue of \$24.8 million is an increase of \$.9 million compared to fiscal year 2005 due to customer growth. Revenues generated from this fee are designated for the purpose of the San Juan Chama Drinking Water Project.

Wastewater revenue of \$46.6 million is a decrease of \$.7 million compared to fiscal year 2005, with sewer residential sales at \$19.3 million, a decrease of \$1.3 million or 6.3%, due to continued conservation efforts.

Operating expenses of \$116.5 million is an increase of \$6.3 million compared to fiscal year 2005. Controllable operating expenses, operating expenses exclusive of depreciation and amortization, increased only \$.75 million. Employee expenses are the largest expense component of most functions and there was a level employee count overall throughout the Utility in fiscal year 2006.

The increase in Customer Services expenses reflects the higher costs associated with the first year operations using the new utility billing system which went live on July 1, 2005.

The increase in Finance reflects the higher transfers to the City of Albuquerque for risk management.

The increase in Water Authority reflects an increase of one employee to three employees during fiscal year 2006 and higher legal fees paid as part on the ongoing transition of the management of the Utility including its employees from City of Albuquerque control to Authority control effective July 1, 2007.

Depreciation expense increased by \$5.5 million from the previous year and will continue to increase as water and wastewater infrastructure is placed into service for our customers.

Non-operating revenue and capital contributions of \$39.1 million is an increase of \$4.3 million compared to fiscal year 2005 and is attributable to three sources. The increase in Utility Expansion Charge revenue of \$4.85 million is due to new construction in the service area. Infrastructure provided to the Authority by private contractors decreased by \$4.0 million. The comparison between years was affected by the City of Albuquerque's imposition of impact fees in fiscal year 2006 which caused developers to accelerate construction into fiscal year 2005. Investment income increased by \$3.5 million due to realization of the higher interest rates available from the financial markets.

Net non-operating expenses of \$9.2 million is an increase of \$.5 million compared to fiscal year 2005. The increase in interest expense reflects the first capital appreciation bond payment made and in general is indicative of the significant new debt incurred in recent years to finance the San Juan Chama Drinking Water Project and an expanded Basic capital program.

Note that the figures reported for investment income and interest expense above for the change in net assets are accrual basis figures and therefore will not match the cash basis figures reported for these items in the Financial Highlights section above.

OPERATING FUNDS BUDGETARY HIGHLIGHTS

The Utility's final fiscal year operating budgets were virtually unchanged from the original budgets, primarily because the growth in charges for services revenues and other revenue sources were equal to or greater than forecasted growth. Budgeted revenues, other than transfers from non-restricted cash to cash restricted for debt service, decreased by \$5.85 million in fiscal year 2006 compared to fiscal year 2005. However, the actual revenues from these sources increased by \$16.9 million in fiscal year 2006 compared to fiscal year 2005. The most significant realization of revenues in excess of budgeted was for Utility Expansion Charges (UECs). The Authority implemented higher UECs effective July 1, 2006 which caused developers to accelerate construction into fiscal year 2006.

Budgeted expenses, other than for transfers and debt service, were virtually unchanged from the original budgets and were higher than fiscal year 2005 by only \$.5 million. However, the actual expenses on a budgetary basis decreased in fiscal year 2006 from fiscal year 2005 by \$3.0 million. The program where actual expenses were less than budgeted by the largest amount was in the Sustainable Water Program where actual expenses were less than budgeted by \$6.4 million. Delays in the construction schedule for the Drinking Water Treatment Plant pushed back the need for personnel and training costs in preparation for the go live date for drinking treated river water. The basic capital program for fiscal year 2006 was \$45 million including a \$4 million carryover from fiscal year 2005 and an additional \$5 million for interceptor sewer rehabilitation. Cash transfers from the operating program to capital were \$18 million. \$5 million was

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borrowed in fiscal year 2006 for capital with the remaining \$25 million provided by beginning of year cash reserves. The Authority in July 2006 secured debt financing in the amount of \$9 million to support the basic capital program and another \$12 million to support the Utility's commitment for water and sewer expansion in the Authority's North and South Valley service areas for fiscal year 2007 and beyond.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (net of depreciation, in thousands)		2006	2005	Percent Change 2005 – 2006
Land *	\$	23,181	\$ 23,146	0.1
Buildings and improvements		736	801	(8.1)
Improvements other than buildings		758,891	683,474	11.0
Machinery and equipment		<u>26,165</u>	<u>21,810</u>	<u>20.0</u>
Capitalized assets		808,973	729,231	10.9
Construction work in progress *		<u>179,562</u>	<u>87,998</u>	<u>104.0</u>
Total capital assets		<u>\$ 988,535</u>	<u>\$ 817,229</u>	<u>21.0</u>

* assets not being depreciated

Capital Assets

The Authority's gross investment in capital assets, excluding construction work in progress at June 30, 2006 was \$1.60 billion. The net depreciated capital assets were \$989 million. Capital asset additions, including construction work in progress, during fiscal year 2006 were \$222 million.

Major additions or improvements included:

Treatment Plant Renovation - \$3.3 million

Various plant improvements, including the completion of rehabilitation necessitated by a storm event of April 2004. A substantial portion of the storm related work was reimbursed to the Utility by the State of New Mexico with FEMA funds.

Valley Utilities Projects - \$4M Construction work on two sewer projects in the unincorporated North Valley area neared completion in fiscal year 2006. With the end of those projects, work will shift in fiscal year 2007 to several large water and sewer projects in the North and South Valley service areas in conjunction with Bernalillo County Public Works Department. The Authority continued providing assistance to low income customers to connect to the water and sewer systems.

MIS Development - \$2.2M

The new Utility billing system, called CIS, went live on July 1, 2005. Final costs were \$6.6 million. The billing system is a PeopleSoft product. PeopleSoft has been acquired by Oracle and the Utility is planning to migrate to the Oracle version, called CC & B, at the time product support ends for CIS. Work was also done on the Maximo (the Utility's work order system) - GIS conversion which will enable improved work order disposition and asset management tied to GIS-based assets.

San Juan Chama Water Treatment Plant and Pipelines - \$156.3M

Project provides for the direct use of renewable surface water supplies in lieu of using deep aquifer groundwater supplies.

Construction on the San Juan Chama Drinking Water Project continued during fiscal year 2006. The diversion dam and intake structure were completed, five transmission pipelines were completed and 30% of the water treatment was completed in fiscal year 2006. The \$450 million project is scheduled to be operational in Fall 2008.

Rehabilitation of Volcano Reservoir # 1 and Construction of Volcano Reservoir #2 - \$1.1M

Construction of Volcano Reservoir No. 2 will supplement and provide backup storage service to existing customers in the Volcano Trunk area. The rehabilitation of reservoir # 1 was completed.

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Interceptor Sewer Rehab - \$14.7M

Two projects, the replacement of Interceptor Line 142a upstream of the Southside Water Reclamation Plant and an emergency repair in the South Valley at 4th Street / Bridge, accounted for more than \$9 million of the total spending.

Yale Reservoir Replacement - \$1.2M

Construction started in fiscal year 2006 on renovation / replacement of the oldest water infrastructure still in service. Project design includes a new pump station and water lines to downtown Albuquerque.

More detailed information can be found in Note III. C of the accompanying financial statements.

Debt Administration

At the end of fiscal year 2006, the Authority had \$467.3 million in bonds, notes and loans outstanding including unamortized balances, an increase of \$118.0 million from the prior year. The \$118.0 million is comprised of the net of 1) bonds and notes issued of \$153.0 million, 2) less \$42.0 million of principal payments and 3) plus \$7.0 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 2006 was 1.69 times compared to 1.33 times that is 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 million of revenue bonds in October 2005 and secured a \$20 million loan from the New Mexico Mortgage Finance Authority (NMFA) in the same month. The \$133 million was split between the San Juan Chama Drinking Water Project \$116.7 million, the Basic capital program \$5.0 million and Debt Service \$11.3 million. The \$20.0 million is to be used for the San Juan Chama Drinking Water Project.

More detailed information can be found in Note III. D. of the accompanying financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

According to forecasts by the University of New Mexico Bureau of Business and Economic Research (BBER), the outlook for the Albuquerque MSA economy is quite good in the near term. Each of the next four quarters will bring employment growth at or above 3.0% as the construction, manufacturing and information sectors enjoy very good times, indeed. After that, growth in construction employment will wane followed soon by a similar occurrence in the manufacturing sector. At this point, in the second half of 2007 total employment growth will slip to near 2.0% and then decline slowly reaching 1.5% by 2010. In annual terms, New Mexico nonfarm employment growth will reach 2.9% this year and 2.7% next year, slip to 1.9% in 2008, and gently ease toward 1.5% in 2011. Personal income growth will follow a similar pattern, exceeding 6.0% in 2006 and 2007, dropping to 5.4% in 2008 and gradually declining thereafter. The unemployment rate is expected to remain not far from 4.5% throughout.

The manufacturing sector is expected to post employment gains of 3.5% in 2006 and 6.9% in 2007. More than 2,500 (net) manufacturing jobs will be added during the next two years. Information sector employment is expected to increase 2.1% this year, 5.5% next year and 8.6% in 2008. In the construction sector, employment growth will slow to 8.1% in 2006 from 9.4% in 2005. A further decline to 4.0% in 2007 is expected to follow. The outlook for Albuquerque City housing is rather weak with double-digit declines in total housing unit authorizations for 2006 and 2007. The educational services, health care and social assistance sector will continue as a major contributor to growth with employment gains just over 3.0% in 2006 and 2007. Retail trade will enjoy a good year in 2006, posting a 2.1% employment gain. Employment growth will slip to near 1.5% annually. Government sector employment growth will remain moderate in the 1.5-2.0% range. Other sectors, including professional, scientific and technical services and business services will enjoy annual employment gains in the 2.0 to 3.0% range annually. Leisure and hospitality is expected to enjoy employment gains of near 2.5% in 2006 and 2007.

The Authority's customer base has increased from 164,300 in fiscal year 2005 to 167,300 in fiscal year 2006. On average the customer base has been increasing at a rate of 2% per year. This increase in customers has been tempered by the decrease in consumption as a result of water conservation.

From calendar 2000 to 2006 water production has decreased 9.7% from 35.6 billion gallons per year to 32.5 billion gallons per year. Unaccounted for water, water produced over water billed, showed no change from 11.5% to 11.5% in fiscal year 2006.

The Authority Board approved a 1% rate increase to provide additional funding for existing water conservation programs effective July 1, 2006. The Board also approved the pass-through of the 4% franchise fee paid to the City of Albuquerque for the use of public rights-of-ways and public places to construct, operate, and maintain the Authority's water and wastewater systems. This franchise fee pass-through is effective July 1, 2006.

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Total Authority operating fund revenues for fiscal year 2006 was \$138.2 or \$11.6 million above fiscal year 2005. This is a increase of 8.39% above fiscal year 2005 and was \$8.9 million above the approved FY/05 budget. The increase was due to a decrease in water usage because of above average moisture in fiscal year 2005 that the service area received during the fiscal year and offset by the continued impact of water conservation.

Construction on the San Juan Chama Drinking Water Project continued during fiscal year 2006. The diversion dam and intake structure were completed, five transmission pipelines were completed and 30% of the water treatment was completed in fiscal year 2006. The \$485 million project is scheduled to be operational in the fall of 2008.

The basic capital program is \$41 million for fiscal year 2007. Cash transfers from the operating program provide funding for 50% of the capital costs with the other 50% funded from debt financing. Approximately \$7 million of the basic capital program will be used to support water and sewer expansion in the Authority's North and South Valley service areas. The Authority will secure debt financing in the amount of \$50 million to support the basic capital program for fiscal year 2007 and fiscal year 2008.

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.

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, 2006. 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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF NET ASSETS
June 30, 2006

ASSETS

Current assets:

Cash, investments, and accrued interest	\$ 26,766,770
Cash with fiscal agents held for debt service	39,461,690
Accounts receivable	10,226,675
Notes receivable, current portion	1,213,410
Due from other governments	<u>1,991,554</u>

Total current assets	<u>79,660,099</u>
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Noncurrent assets:

Long-term accounts and notes receivable	7,705,710
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Restricted assets:

Cash, investments, and accrued interest	91,339,646
Investment with fiscal agents	1,337,211
Escrow deposits	<u>146,492</u>

Total restricted assets	<u>92,823,349</u>
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Capital Assets

Land	23,181,433
Buildings and improvements	2,210,836
Improvements other than buildings	1,527,326,790
Machinery and equipment	<u>46,648,479</u>
	1,599,367,538

Less accumulated depreciation and amortization	<u>790,394,722</u>
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Net capital assets	808,972,816
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Construction work in progress	<u>179,561,894</u>
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Total capital assets	<u>988,534,710</u>
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Other:

Capitalized bond issuance costs	2,457,503
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Purchased water rights, net of accumulated amortization of \$9,138,383	<u>29,073,663</u>
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Total other	31,531,166
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Total noncurrent assets	<u>1,120,594,935</u>
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Total assets	<u><u>\$ 1,200,255,034</u></u>
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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, 2006

LIABILITIES

Current liabilities:	
Accounts payable	\$ 2,125,897
Accrued employee compensation	2,469,592
Deposits	701,627
Accrued interest payable	466,562
Payable from restricted assets:	
Contracts and other payables	23,260,967
Current portion:	
Bonds and notes payable	31,605,000
Water rights and loan agreements	4,272,942
Accrued interest	8,177,630
Total current liabilities	73,080,217
Noncurrent liabilities	
Long-term payable	
Bonds and notes payable, net of current portion, disc and premiums	257,608,339
Water rights contract and loan agreements	173,819,516
Total long-term payable	431,427,855
Other:	
Accrued vacation and sick leave pay	653,124
Deferred credits and other liabilities	877,107
Total other liabilities	1,530,231
Total noncurrent liabilities	432,958,086
Total liabilities	506,038,303

NET ASSETS

Invested in capital assets, net of related debt	609,954,619
Restricted:	
Debt Service	12,919,005
Construction	5,539,537
Unrestricted	65,803,570
Total net assets	\$ 694,216,731

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, 2006

Operating revenues:

Charges for services	<u>\$ 138,202,390</u>
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Operating expenses:

Salaries and fringe benefits	27,199,667
Professional services	522,423
Utilities	8,575,409
Supplies	3,566,957
Travel	19,404
Fuels, repairs and maintenance	7,321,814
Contractual services	2,907,072
Other operating expenses	14,057,616
Depreciation	51,933,636
Amortization	<u>382,882</u>
Total operating expenses	<u>116,486,880</u>
Operating income (loss)	<u>21,715,510</u>

Non-operating revenues (expenses):

Interest on investments	5,019,000
Gain (loss) on disposition of capital assets	6,572
Interest expense	(8,618,687)
City water service expansion charges	17,254,474
Bond issue amortization	(312,953)
Expenses incurred for outside agency	(277,946)
Other	<u>570,325</u>
Total non-operating revenues (expenses)	<u>13,640,785</u>
Income (loss) before capital contributions	35,356,295

Capital contributions

16,853,909

Change in net assets	52,210,204
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Net assets, July 1	<u>642,006,527</u>
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Net assets, June 30	<u><u>\$ 694,216,731</u></u>
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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, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 137,117,958
Cash payments to employees for services	(26,995,582)
Cash payments to suppliers for goods and services	(38,220,851)
Miscellaneous cash received	<u>591,116</u>
Net cash provided by operating activities	72,492,641

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from revenue bonds	138,807,932
Proceeds from notes payable	20,000,000
Principal paid on water rights contract	(816,489)
Interest paid on water rights contract	(584,745)
Purchased water rights	(855,895)
Capitalized bond issuance costs	(1,632,292)
Principal paid on revenue bond maturities	(33,050,000)
Interest and other expenses paid on revenue bond maturities	(7,118,232)
Principal paid on notes payable (NMFA, SRF, EID)	(8,216,529)
Interest paid on notes payable (NMFA, SRF, EID)	(5,293,835)
Acquisition and construction of capital assets	(196,792,017)
Capital grants received	1,013,475
City water service expansion charges	16,039,511
Payments to other agencies for infrastructure	(277,946)
Proceeds from sales of capital assets	<u>33,019</u>
Net cash used for capital and related financing activities	<u>(78,744,043)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investments	<u>7,761,108</u>
Net increase in cash and cash equivalents	1,509,706
Cash and cash equivalents, July 1	<u>157,542,103</u>
Cash and cash equivalents, June 30	<u>\$ 159,051,809</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, 2006

Reconciliation of operating income to net cash provided (used) by operating activities:

Operating income	\$ 21,715,510
Adjustments to reconcile operating income to	
Net cash provided by operating activities:	
Depreciation	51,933,636
Amortization	382,882
Miscellaneous cash received	591,116
Decrease (increase) in assets:	
Receivables, current	351,767
Receivables, non-current	(1,618,070)
Increase (decrease) in liabilities:	
Accounts payable	(1,250,156)
Accrued employee compensation and benefits	204,085
Customer deposits	241,249
Deferred revenue	(59,378)
	\$ 72,492,641
Net cash provided by operating activities	
Cash and cash equivalents at June 30 consist of:	
Non-Restricted assets:	
Cash, investments and accrued interest	26,766,770
Restricted assets:	
Cash, investments and accrued interest	91,339,646
Cash with fiscal agents held for debt service	39,461,690
Investments with fiscal agents	1,337,211
Escrow deposits	146,492
	\$ 159,051,809
Total cash and cash equivalents, June 30	
Noncash investing, capital, and financing activities:	
Capital contributions by developers	13,952,119
Unrealized gain on investments	414,994
Interest accretion on capital appreciation bonds	(1,801,484)

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, 2006

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. The Authority and the City entered into a Memorandum of Understanding dated January 21, 2004, as amended April 7, 2004, under which the City continues to operate the System. The memorandum of understanding runs through December 31, 2006. The Authority and the City have entered into a new Memorandum of Understanding (MOU) that becomes effective July 1, 2007. Under the new MOU, the Authority will operate with greater autonomy from the City while continuing to utilize core central services of the City. 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. The accompanying financial statements present only the financial position of the Authority at June 30, 2006, and the results of its operations for the year ended June 30, 2006. 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.

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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) are 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 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.

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June 30, 2006

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, 2006, 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, 2006, 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*

Capital assets are defined as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one 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. State of New Mexico Administrative Code requires state and local governmental agencies to capitalize fixed assets costing in excess of \$5,000. Currently, the City defines capital assets as assets with an initial, individual cost of more than \$1,000 and estimated useful life in excess of one year. The City expects to implement the new \$5,000 capitalization threshold in fiscal year 2007.

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:

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

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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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 City and 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 City and 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. *Deferred revenue*

The Authority defers revenue on a water rights contract. The revenue is recognized on a straight-line basis through the end of the contract period ending in 2077.

8. *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.

9. *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. Nonpooled 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.

10. *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.

11. *Net assets, restrictions, and designations*

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

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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.

12. New accounting pronouncements

The Authority implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section* (GASB 44), for the fiscal year ended June 30, 2006. The Authority implemented GASB Statement No. 42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. The Authority also implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation- An Amendment of GASB Statement No. 34*. Enabling legislation authorizes the raising of new revenue that contains a legally enforceable law. There were no such new restrictions for the fiscal year ended June 30, 2006. In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). This Statement addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits that are commonly referred to as other postemployment benefits, or OPEB. This Statement requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitment related to OPEB in their basic financial statements. The Authority is currently evaluating the impact this Statement will have on the financial statements and will adopt this Statement for fiscal year ending June 30, 2008.

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 2006, it is at the fund level that expenditures may not exceed appropriations.

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III. Detailed notes on all funds

A. Cash and investments

As discussed in Note I. C. 1. , the Authority participates in the City's pooled investment program. The total cash, investments, accrued interest and cash with fiscal agents, net of cash overdrafts of the City at June 30, 2006, consist of the following:

	(In thousands of dollars)				
	Govern- mental Activities	Business- type Activities	Fiduciary Funds	Total	Component Unit
Cash, investments accrued interest and cash with fiscal agents, net of unamortized discounts and premiums:					
Repurchase agreements	\$ 307,288	\$ 119,533	\$ 10,422	\$ 437,244	\$ 110,756
Obligations of federal agencies or instrumentalities	105,492	41,035	3,578	150,105	38,022
State of New Mexico investment council	28,092	-	-	28,092	-
State of New Mexico local government					
Investment pool	-	7,173	-	7,173	-
Held in trust by New Mexico Bank and Trust					
U.S Treasury Fund	-	209	-	209	-
Held in trust by NM FA in State of New Mexico					
local government investment pool	-	-	-	-	1,295
Held in trust by Wells Fargo Bank in U.S. Treasury					
Fund	68	2,594	-	2,661	-
Held in trust by Bank of Albuquerque in U.S.					
Treasury Fund	1,179	-	-	1,179	42
Total investments	442,119	170,544	14,000	626,663	150,115
Certificate of deposit	200	-	-	200	-
Bank accounts at book balances	(1,936)	(6,753)	(1,359)	(10,048)	8,568
Total bank balances	(1,736)	(6,753)	(1,359)	(9,848)	8,568
Accrued interest receivable	642	240	21	903	222
Imprest cash funds	247	15	-	262	-
Total other	889	255	21	1,165	222
Total cash, investments, accrued interest and cash					
With fiscal agents	\$ 441,272	\$ 164,046	\$ 12,662	\$ 617,980	\$ 158,905
Current cash, investments and accrued interest:					
Cash, investments and accrued interest	\$ 287,248	\$ 36,875	\$ 11,019	\$ 335,142	\$ 26,767
Cash, investments with fiscal agents	89,860	20,379	-	110,239	39,461
Total current cash, investments and accrued interest	377,108	57,254	11,019	445,381	66,228
Restricted noncurrent cash, investments and accrued interest:					
Cash, investments and accrued interest	64,164	106,792	1,643	172,599	91,340
Cash and investments with fiscal agents	-	-	-	-	1,337
Total noncurrent cash, investments, accrued interest	64,164	106,792	1,643	172,599	92,677
Total cash, investments, accrued interest and cash with fiscal agents	\$ 441,272	\$ 164,046	\$ 12,662	\$ 617,980	\$ 158,905

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, 2006, none of the City's bank balances of \$11,803,219 was exposed to custodial credit risk.

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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, 2006 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 44.65%, 31.68% and 23.67% respectively of the non-repurchase agreement portfolio and 11.41%, 8.10% and 6.05% of the total portfolio.

At June 30, 2006 the City held investments issued by three Government Sponsored Entities (GSEs), as well as certificates of deposit (CDs) and overnight repurchase agreements (repos). Summarized information concerning the GSE investments is as follows:

<u>U.S. Agency Investments (summarized by GSE)</u>	<u>Wtd. Avg. Days to Maturity</u>	<u>*Weighted Average Days to Call</u>	<u>Standard & Poors Rating</u>	<u>Moody’s Rating</u>
Federal Home Loan Banks	163.8	–	AAA	Aaa
Federal National Mortgage Association	175.5	–	AAA	Aaa
Federal Home Loan Mortgage Corporation	95.7	–	AAA	Aaa

*Call provisions on all callable securities were expired at June 30, 2006.

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The two CDs were fully insured by the Federal Deposit Insurance Corporation. 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, 2006, 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	\$7,172,781	24-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, 2006 was 40.21 days. The weighted average days to call of the same portfolio was 2.23 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, 2006 consists of the following:

	First Community (Water)	First Community (Housing)	Bank of America	Wells Fargo Bank	Compass Bank	Bank 1 st	Union Bank	NM Bank & Trust
Total amount on deposit	\$ 1,045	\$ 6,238	\$ 1,857	\$ 2,159	\$ 6	\$ 100	\$ 100	\$ 93
Less FDIC coverage	100	100	100	100	6	100	100	100
Total uninsured public funds	945	6,138	1,757	2,059	-	-	-	
50% collateral requirement	472	3,069	879	1,030	-	-	-	
Pledged securities, fair value	1,944	7,258	3,076	2,689	-	-	-	396
Pledged in excess of Requirement	\$ 1,472	\$ 4,189	\$ 2,197	\$ 1,659	\$ -	\$ -	\$ -	\$ 396

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. Also included are miscellaneous receivables. At June 30, 2006 there was no allowance for uncollectible accounts on miscellaneous receivables.

A dispute exists between New Mexico Utilities and the Authority regarding the rate structure. On September 13, 2004, New Mexico Utilities, Inc. (NMUI) filed a Complaint for Declaratory Judgment, with the Second Judicial District Court naming the Albuquerque Bernalillo County Water Utility Authority as defendant. The complaint asks the Court to declare that the 1973 Agreement between the City of Albuquerque and NMUI provides a "most favored nation" status and the right to have its sewage effluent disposed at the minimum sewer rate of large volume institutional users and that the rate currently imposes only the wholesale rate commodity charge with the institutional fixed monthly charge to large volume users. The complaint also requests court costs. The Authority's answer to the complaint was filed on October 15, 2004 along with a counterclaim. The counterclaim lists 6 counts: 1) Declaratory Judgment; 2) Estoppel; 3) Impracticability of Performance; 4) Unjust Enrichment; 5) Anti-Donation Clause; and 6) Breach of Contract. The court found in favor of the Authority in May 2007, but New Mexico Utilities have appealed the decision. The Authority expects this issue to be resolved by late 2007. As a result, the amount owed by New Mexico Utilities at June 30, 2006, \$2,381,747, is considered noncurrent.

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Notes receivable are for utility expansion charges. 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, 2006, was as follows:

	Balance July 1	Additions	Deductions	Balance June 30
Assets not being depreciated:				
Land	\$ 23,146,184	\$ 35,249	\$ -	\$ 23,181,433
Construction work in progress	87,998,458	206,359,014	114,795,578	179,561,894
Total assets, not being depreciated	<u>111,144,642</u>	<u>206,394,263</u>	<u>114,795,578</u>	<u>202,743,327</u>
Assets being depreciated:				
Buildings	2,257,926	-	47,090	2,210,836
Improvements other than buildings	1,404,190,276	123,136,514	-	1,527,326,790
Equipment	39,304,258	8,530,278	1,186,057	46,648,479
Total assets, being depreciated	<u>1,445,752,460</u>	<u>131,666,792</u>	<u>1,233,147</u>	<u>1,576,186,105</u>
Less accumulated depreciation:				
Buildings	1,456,953	45,629	27,773	1,474,809
Improvements other than buildings	720,716,573	47,719,883	-	768,436,456
Equipment	17,494,259	4,168,125	1,178,927	20,483,457
Total accumulated depreciation	<u>739,667,785</u>	<u>51,933,637</u>	<u>1,206,700</u>	<u>790,394,722</u>
Capital assets being depreciated, net	706,084,675	79,733,155	26,447	785,791,383
Total capital assets, net	<u>\$ 817,229,317</u>	<u>\$ 288,999,956</u>	<u>\$ 117,694,564</u>	<u>\$ 988,534,710</u>

Changes to capital assets of the Authority for the fiscal year ended June 30, 2006, include the following amounts of capitalized interest:

	Total Interest	Interest Related to Tax-Exempt Borrowing	Net
Interest expense	\$ 17,795,314	\$ 9,176,627	\$ 8,618,687
Interest income	7,761,108	2,742,108	5,019,000
Capitalized interest		<u>\$ 6,434,519</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, 2006, are as follows:

	June 30, 2005	Increases	Decreases	June 30, 2006	Payable in One year
Revenue Bonds	\$ 185,745,000	\$ 132,985,000	\$ 33,050,000	\$ 285,680,000	\$ 31,605,000
Notes Payables	147,928,325	20,000,000	8,216,529	159,711,796	3,431,583
Water rights contract	19,197,151	-	816,489	18,380,662	841,359
Accrued vacation and sick leave pay	2,467,044	1,922,723	1,824,389	2,565,378	1,912,254
Less deferred amounts:					
Unamortized bond discounts	(4,076,983)	-	(1,801,483)	(2,275,500)	-
Unamortized bond premiums	2,109,138	5,822,933	1,001,758	6,930,313	-
Bond refunding costs	(1,582,836)	-	(461,362)	(1,121,474)	-
	351,786,543	160,730,656	42,646,320	469,871,175	37,790,196
Current portion of long-term Obligation	(41,192,162)		(3,401,966)	(37,790,196)	
Total	\$ 310,594,677	\$ 160,730,656	\$ 39,244,354	\$ 432,080,979	\$ 37,790,196

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, 2006, are as follows:

Issue	Amount	Interest Rate	Final Maturity	Call Provision
June 1, 1990 A	\$ 28,695,000	6.00/7.20%	July 1, 2008	100% beginning July 1, 200
August 1, 1995	9,670,000	3.65/6.00%	July 1, 2007	Not callable
June 15, 1997	21,250,000	4.75%	July 1, 2009	100% beginning July 2, 2006
January 1, 1999A	61,115,000	3.80/5.25%	July 1, 2011	Not callable
May 1, 2000A	4,960,000	5.00%	July 1, 2006	Not callable
December 1, 2001	27,005,000	3.00/4.50%	July 1, 2013	100% beginning July 1, 2010
October 25, 2005	132,985,000	3.25/5.00	July 1, 2025	100% beginning July 1, 2015
Total outstanding	285,680,000			
Unamortized:				
Premiums	6,930,313			
Discounts	(2,275,500)			
Deferred refunding costs	(1,121,474)			
Net outstanding	\$ 289,213,339			

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 \$20,312,790 has accreted as of June 30, 2006, 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.

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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, 2006, was \$18,380,662.

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, 2006, was \$3,538,340.

On October 5, 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, 2006, was \$529,055.

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, 2006, was \$1,888,099.

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, 2006, was \$8,322,560.

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. Final payment is due May 20, 2025. The balance due at June 30, 2006, is \$9,269,568.

On April 12, 2002, the Authority executed a loan agreement with the New Mexico Finance Authority for \$450,000 with an average interest rate of 3.6%. The proceeds from the loan will be used to construct chemical storage facilities used as part of the Authority's drinking water disinfection system. Final payment is due on July 1, 2014. The balance due at June 30, 2006 was \$356,498.

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 will be used for the construction of a drinking water disinfection system in the Authority's water and wastewater utility system. Final payment is due on July 1, 2014. The balance due at June 30, 2006 was \$1,924,734.

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, 2006 was \$3,057,942.

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, 2006 was \$110,825,000.

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, 2006 was \$20,000,000.

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Summary of Annual Debt Service Requirements

The annual debt service requirements on the revenue bonds, notes payable, loan agreements and the water rights contract payable outstanding at June 30, 2006, are as follows:

Year	Principal	Interest	Total
2007	\$ 38,773,543	\$ 18,746,925	\$ 57,520,468
2008	41,055,683	16,477,504	57,533,187
2009	37,929,757	15,203,270	53,133,027
2010	36,445,962	13,872,418	50,318,380
2011	28,466,365	12,538,189	41,004,554
2012-2016	119,702,446	46,836,928	166,539,374
2017-2021	90,798,775	25,435,547	116,234,322
2022-2026	70,599,927	7,246,699	77,846,626

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.

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, 2006.

Group Covered	Employee		Employer	
	Percent	Amount	Percent	Amount
General – Management, Blue Collar and White Collar	13.15%	\$ 20,365	9.15%	\$ 14,239
General – Bus Drivers	13.15%	938	9.15%	653
General – Other	7.00%	188	7.00%	220
Corrections	16.65%	1,680	16.65%	1,680
Police	16.30%	7,883	18.50%	9,038
Fire	16.30%	5,038	21.25%	6,608
		\$ 36,092		\$ 32,438

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's varies according to the specific plan type. For the fiscal years ended June 30, 2006, 2005, and 2004, the Authority paid \$3,497,904, \$3,400,878, and \$3,182,821 respectively in contributions to PERA for the year.

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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, 2006, was \$255,938,628; the total payroll for all employees of the City and Authority employees was \$301,785,882.

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.

G. Post employment benefits

In addition to providing pension benefits described in Note 17, 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 fiscal year ended June 30, 2006, were approximately \$204,272.85. The number of retired employees covered under the life insurance benefit was 3,316 at June 30, 2006, and the amount of life insurance coverage for these retired employees was \$67,001,900.

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 NMRCHA 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.

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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 year ended June 30, 2006, 2005, and 2004, the Authority remitted \$236,874, \$230,428, and \$217,413 in employer contributions to the Retiree Health Care Authority.

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 \$600,000 for each workers' compensation incident, \$1,050,000 for each tort liability claim, and \$50,000 for each City real and contents damage claim. At various periods in past years, certain risk exposures were insured and the City continues to benefit from case coverage on claims that were incurred during those claim years.

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, 2006, 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.

Based on historical data, the City believes the Risk Management Fund (an internal service fund) is adequately funded. During Fiscal Year 2005, two comprehensive actuarial reviews were done to gauge the adequacy of the reserves for both the Workers' Compensation and Tort Liability programs. The actuarial reviews validated that the \$2,900,000 added in Fiscal Year 2004 to the "incurred but not yet reported" reserves was 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 \$9,908,414 during Fiscal Year 2006 and the City is in the final year of a five year plan to address a deficit in the Risk Management Fund. In Fiscal Year 2007, a comprehensive actuarial study will be initiated to again validate the fund's adequacy. 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 2006 with \$42,717,703 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 2006 and 2005 were:

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 2006 and 2005 were:

	<u>2006</u>	<u>2005</u>
Claims liability at July 1	\$ 50,378,764	\$ 47,578,248
Current year claims and change in estimates	22,684,682	23,682,795
Claims liquidated	<u>(22,112,455)</u>	<u>(20,882,279)</u>
Claims liability at June 30	<u>\$ 50,950,991</u>	<u>\$ 50,378,764</u>
The components of the claims liability at June 30 are:		
Current portion	\$ 21,916,000	\$ 17,503,500
Noncurrent portion	<u>29,034,991</u>	<u>32,875,264</u>
Total claims liability	<u>\$ 50,950,991</u>	<u>\$ 50,378,764</u>

The Authority paid \$5,390,715 for its share of the risk management charges for the year. The Risk Management Fund has a positive net assets balance of \$733,884 as of June 30, 2006.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
June 30, 2006

I. Transactions with other government agencies

As discussed in I, 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:

Payment in lieu of taxes	\$ 5,202,840
Administrative indirect overhead, including accounting and other central services	2,312,680
Warehouse	2,057,584
Fleet Management Services	1,751,645
Telephone	233,646
Office services and parking	74,619
Total	\$ 11,633,014
 The City paid the Authority for water and sewer services in the amount of	 \$ 6,114,567

There were no significant transactions with Bernalillo County for the fiscal year ending 2006.

J. Commitments and contingencies

Construction Commitments. At June 30, 2006, the uncompleted construction and other commitments in the Authority was \$219,334,492. 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 outstanding bonds and notes of certain water and sewer improvement districts (Special Assessment Debt) are secured by surplus revenues of the Authority, subordinate to bonds and obligations payable solely or primarily from such revenues. Special Assessment debt and notes of which the Authority's revenues are pledged amount to \$896,619 outstanding at June 30, 2006. Interest rates range from 5.10% to 6.65%, and maturities extend through January 1, 2015.

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. An appeal of the surface diversion permit was filed in State District Court by a group of environmental and farmer interests. The State District Court ruled in favor of the Authority on all accounts. 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 December 2007.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
June 30, 2006

K. *Subsequent events*

On July 12, 2006, the Authority closed on the Joint Water and Sewer System Improvement Revenue Bonds Series 2006A in the amount of \$133,390,000. The proceeds will be used for several purposes. \$12 million will be used for improving the water and sewer infrastructure in the unincorporated areas of the North and South Valleys within the Authority's Bernalillo County service area. \$9 million will be used for the basic system capital projects in the rehabilitation area. The remaining \$112.39 million will be used for the second phase of the San Juan Chama Surface Water Treatment project.

On July 1, 2006 the Authority will implement a 5% rate increase. A 1% increase is being implemented to fund the Water Resources Management strategy work. The remaining 4% increase is a pass through of the franchise fee the Authority will pay for the use of the right of way. In fiscal years prior to July 1, 2006, the Authority absorbed the franchise fee as a cost of service.

Concurrent with the closing of Revenue Bonds Series 2006A noted above, the Authority received two upgraded bond ratings. The Authority received an Aa2 rating, upgraded from an Aa3 rating, from Moody's Investors Service and received an AA rating from Fitch Ratings with a change in outlook to positive from stable.

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, 2006

	Budget Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Charges for services	\$ 110,153,000	\$ 110,153,000	\$ 112,569,088	\$ 2,416,088
City water service expansion charges	13,000,000	13,000,000	17,254,474	4,254,474
Sustainable water supply	25,400,000	25,400,000	25,095,858	(304,142)
Interest on investments	850,000	850,000	3,341,686	2,491,686
Valley system connection charges	75,000	75,000	99,887	24,887
City system connection charges	500,000	500,000	67,596	(432,404)
Other miscellaneous	929,000	929,000	1,268,524	339,524
Transfer from non-restricted cash to cash restricted for debt service	52,517,000	52,517,000	52,517,000	-
Total revenues	203,424,000	203,424,000	212,214,113	8,790,113
Expenses:				
Water plant facility R&M	10,707,000	10,779,669	9,963,685	815,984
Water plant facility operations	9,965,000	10,161,434	9,343,099	818,335
Water distribution facility maintenance	3,885,000	3,924,998	3,313,873	611,125
Wastewater treatment	10,517,000	10,533,410	9,880,649	652,761
Wastewater pretreatment	3,338,000	3,339,970	2,900,013	439,957
Wastewater collection	5,082,000	5,082,000	5,447,894	(365,894)
Sustainable water supply	8,575,000	8,575,000	2,137,992	6,437,008
North I-25 reuse	384,000	384,000	373,787	10,213
Customer services	3,762,000	3,763,200	3,771,700	(8,500)
Finance	6,447,000	6,447,000	6,133,234	313,766
San Juan-Chama	1,972,000	1,972,000	2,048,115	(76,115)
Strategic support	1,355,000	1,356,861	1,313,144	43,717
Utility development	976,000	976,000	983,084	(7,084)
Water resources	3,317,000	3,317,000	2,717,364	599,636
Information systems	1,662,000	1,669,978	1,309,840	360,138
Low income utility credit	250,000	250,000	187,264	62,736
Water Authority	688,000	688,000	686,781	1,219
Debt service	59,357,000	59,357,000	55,795,948	3,561,052
Transfer to cash restricted for debt service	39,398,000	39,398,000	39,398,000	-
Transfer from cash restricted for debt service to cash restricted for capital acquisition	13,612,000	13,612,000	13,612,000	-
Sustainable water supply – transfer to cash Restricted for debt service	13,119,000	13,119,000	13,119,000	-
Transfer to cash restricted for capital acquisition	4,388,000	4,388,000	4,388,000	-
Administrative services	7,720,000	7,720,000	7,548,526	171,474
Total Expenses	210,476,000	210,814,520	196,372,992	14,441,528
Excess of revenues over (under) expenses	\$ (7,052,000)	\$ (7,390,520)	15,841,121	\$ (5,651,415)

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, continued
Year ended June 30, 2006

Revenues (expenses) not budgeted:	
Interest on investments of restricted assets	4,004,437
Gain on disposition of property and equipment	6,572
Depreciation	(51,933,636)
Amortization of deferred bond costs	(312,953)
Amortization on water rights contract	(382,882)
Amortization on premium an discounts	1,001,758
	(461,362)
Assets transferred to another agency	(277,946)
	(1,801,484)
Unrealized loss on investments	414,994
Miscellaneous expenses	(4,972)
Lease of water rights	84,101
Net expenses over revenues not budgeted	<u>(49,663,373)</u>
Changes to conform to generally accepted accounting principles:	
Principal payments on bonds and loan agreements	40,650,068
Transfer to cash restricted for capital acquisition	18,444,537
Capital contributions	16,853,909
Capital outlay	3,723,997
Capitalized interest on long-term debt	6,434,519
Capital contributions budgeted as revenues	<u>(167,482)</u>
Net changes to conform to generally accepted accounting principles	<u>86,032,456</u>
Changes in net assets as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Assets	<u>\$ 52,210,204</u>

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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)

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Operating revenues:			
Charges for services	\$ 85,384	\$ 88,999	\$ 99,031
Operating expenses:			
Salaries and fringe benefits	23,438	23,543	23,227
Professional services	1,485	1,636	1,389
Utilities	7,387	7,486	7,973
Supplies	1,559	1,305	1,056
Travel	39	10	21
Fuels, repairs, and maintenance	7,714	7,271	6,949
Contractual services	2,934	3,140	2,963
Other operating expenses	8,201	8,735	9,060
Depreciation	37,722	40,411	42,205
Amortization - water rights	<u>303</u>	<u>303</u>	<u>303</u>
Bad debt expense	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>90,782</u>	<u>93,840</u>	<u>95,146</u>
Operating income (loss)	<u>(5,398)</u>	<u>(4,841)</u>	<u>3,885</u>
Nonoperating revenues (expenses):			
Interest on investments	2,944	2,573	1,447
Gain (loss) on disposition of capital assets	(41)	151	3
Interest expense	(14,771)	(16,369)	(16,834)
City water service expansion charges	8,830	9,363	11,968
Bond issue costs incurred ⁽²⁾	(59)	(361)	(1,177)
Bond issue amortization ⁽²⁾	-	-	-
Equipment purchased for outside agency or fund	-	-	-
Expenses incurred for outside agency or fund	-	-	-
Other	<u>336</u>	<u>320</u>	<u>321</u>
Total nonoperating revenues (expenses)	<u>(2,761)</u>	<u>(4,323)</u>	<u>(4,272)</u>
Income (loss) before capital contributions and transfers	<u>(8,159)</u>	<u>(9,164)</u>	<u>(387)</u>
Capital contributions	<u>17,059</u>	<u>18,133</u>	<u>15,197</u>
Change in net assets	<u>8,900</u>	<u>8,969</u>	<u>14,810</u>
Net assets, July 1, as restated	<u>366,781</u>	<u>375,681</u>	<u>384,650</u>
Net assets, June 30	<u>\$ 375,681</u>	<u>\$ 384,650</u>	<u>\$ 399,460</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>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>\$ 103,606</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>
23,946	25,062	25,433	24,760	25,479	26,796	27,200
987	1,065	754	236	388	1,139	522
7,419	8,244	7,581	7,924	8,306	7,935	8,575
1,541	1,957	1,307	1,529	2,425	2,939	3,567
35	25	13	5	26	24	19
7,287	7,875	7,169	7,524	7,387	7,252	7,322
2,866	3,313	3,145	2,637	3,886	4,422	2,907
9,327	10,152	10,743	10,786	12,498	12,909	14,058
41,670	37,070	39,355	40,843	42,877	46,410	51,934
303	332	348	359	370	374	383
-	-	-	-	-	-	-
<u>95,381</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>8,225</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>
3,863	2,502	2,032	1,073	419	1,549	5,019
(194)	102	66	19	10	(356)	7
(13,026)	(14,046)	(12,206)	(12,278)	(10,428)	(8,406)	(8,619)
10,780	10,909	11,909	14,433	15,112	12,404	17,255
-	-	-	-	-	-	-
(13)	(93)	(35)	(97)	(130)	(143)	(313)
-	-	-	(332)	(242)	-	-
-	-	-	-	(296)	(161)	(278)
457	3,649	544	4,938	203	1,390	570
<u>1,867</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>10,092</u>	<u>15,699</u>	<u>20,243</u>	<u>28,834</u>	<u>31,426</u>	<u>22,699</u>	<u>35,356</u>
<u>15,062</u>	<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>25,154</u>	<u>27,881</u>	<u>35,238</u>	<u>51,012</u>	<u>59,714</u>	<u>43,548</u>	<u>52,210</u>
<u>399,460</u>	<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>\$ 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>

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>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Estimated Population (Service Area)	473,379	479,454	485,569	491,723
Number of Meters Billed	139,486	141,775	144,502	147,605
Estimated Persons Per Meter	3.39	3.38	3.36	3.33
Annual Pumpage (1,000 Gallons)	38,917,000	35,810,000	36,841,000	35,627,000
Annual Water Billed (1,000 Gallons)	34,162,408	31,494,743	32,288,181	31,384,676
Average Daily Pumpage (Gallons)	106,621,918	98,109,589	100,934,247	97,608,219
Peak Day Pumpage (Gallons)	177,620,000	174,500,000	181,560,000	174,430,000
Average Daily Production Per Meter (Gallons)	764	692	698	661
Well Pumping Capacity (per 24 Hour Period)	293,000,000	293,000,000	293,000,000	293,000,000
Storage Capacity (Gallons)	206,600,000	206,600,000	206,600,000	211,000,000
Fire Hydrants	10,561	10,930	11,270	11,570
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	1,560	1,600	1,650	1,690

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
497,916	482,577	489,248	499,684	512,288	525,347
149,883	153,245	156,502	160,135	162,536	167,737
3.32	3.15	3.13	3.12	3.15	3.13
37,101,000	35,750,000	34,760,000	34,734,000	32,600,000	32,799,000
33,074,427	31,670,527	30,836,908	30,886,343	29,235,684	29,551,899
101,646,575	97,945,205	95,232,877	95,161,644	89,315,068	89,860,274
169,500,000	163,600,000	160,140,000	163,500,000	151,000,000	153,500,000
678	639	609	594	549	536
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
11,905	12,175	12,413	12,771	13,062	13,435
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
1,730	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**

Unemployment

Calendar Year	Civilian Labor Force	Bernalillo County		Unemployment Rates		
		Number	Number	Bernalillo	New	United
		Employed	Unemployed	County	Mexico	States
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 Labor Market Report

Population

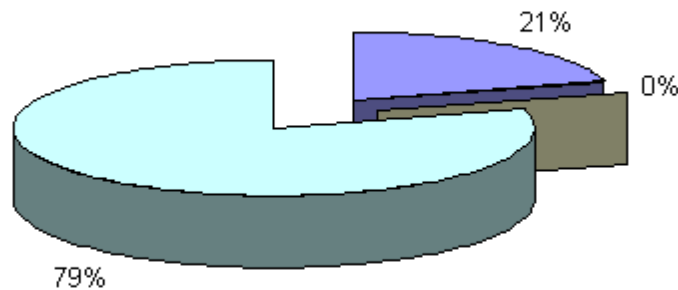
US Census		Bernalillo County	% Inc/Dec from Prev. Yr.	City of Albuquerque	% Inc/Dec from Prev. Yr.	State of New Mexico	% Inc/Dec from Prev. Yr.
2005	**	614,508	2.34%	494,477	2.32%	1,925,985	1.33%
2004	**	600,439	1.74%	483,249	2.21%	1,900,620	1.23%
2003	**	590,153	1.35%	472,814	1.72%	1,877,598	1.05%
2002	**	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%
1997	**	544,201	0.70%	420,907	0.09%	1,774,839	1.28%
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

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

2006				
	<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	- Defense	- 16,360	- 5.18%
2.	University of New Mexico	Education	14,050	4.45%
3.	Albuquerque Public School	Education	11,700	3.71%
4.	Presbyterian	Hospital	6,900	2.19%
5.	City of Albuquerque	Government	6,680	2.12%
6.	State of New Mexico	Government	5,660	1.79%
7.	Intel Corporation	Semiconductor Manufacturer	5,500	1.74%
8.	Lovelace Sandia Health Systems	Hospital	5,200	1.65%
9.	Kirtland AFB (Military Active Duty)	Defense	5,090	1.61%
10.	UNM Hospital	Hospital	<u>4,450</u>	<u>1.41%</u>
	Total		81,590	25.84%
	Total Non-Ag Civil and Military Employees		315,695	100.00%



Source: Pargin Realty Albuquerque Real Estate

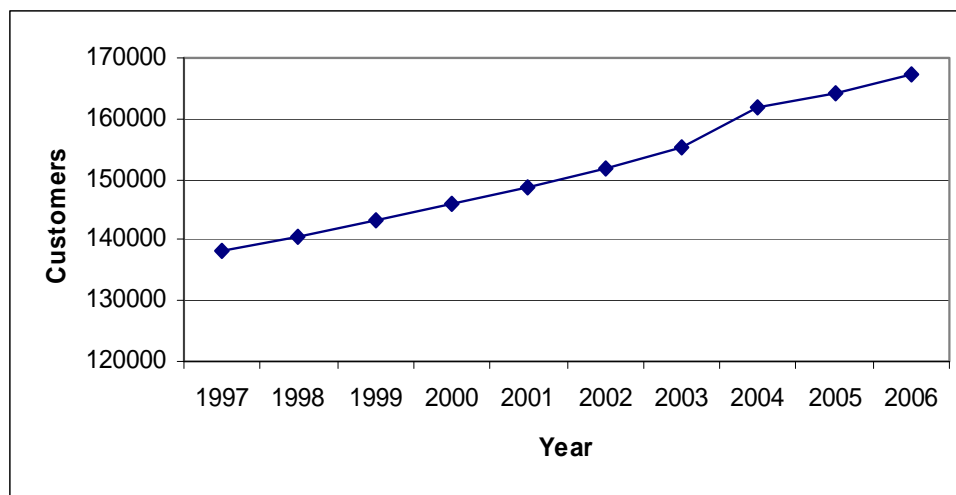
**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
WATER AND WASTEWATER USERS BY CLASS AND METER SIZE
LAST TEN YEARS**

History of Water Users by Class

<u>Class</u>	<u>Average Number of Customers by Fiscal Year</u>									
	<u>1997</u>	<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>
Residential Multi-Family	123,977	126,111	128,738	131,618	134,014	137,081	140,347	146,656	148,974	149,214 6,054
Commercial	12,380	12,511	12,636	12,767	12,871	12,952	13,033	13,388	13,304	10,053
Institutional	1,544	1,590	1,618	1,638	1,660	1,683	1,712	1,836	1,853	1,876
Industrial	<u>145</u>	<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>112</u>
Total	<u>138,046</u>	<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>167,309</u>

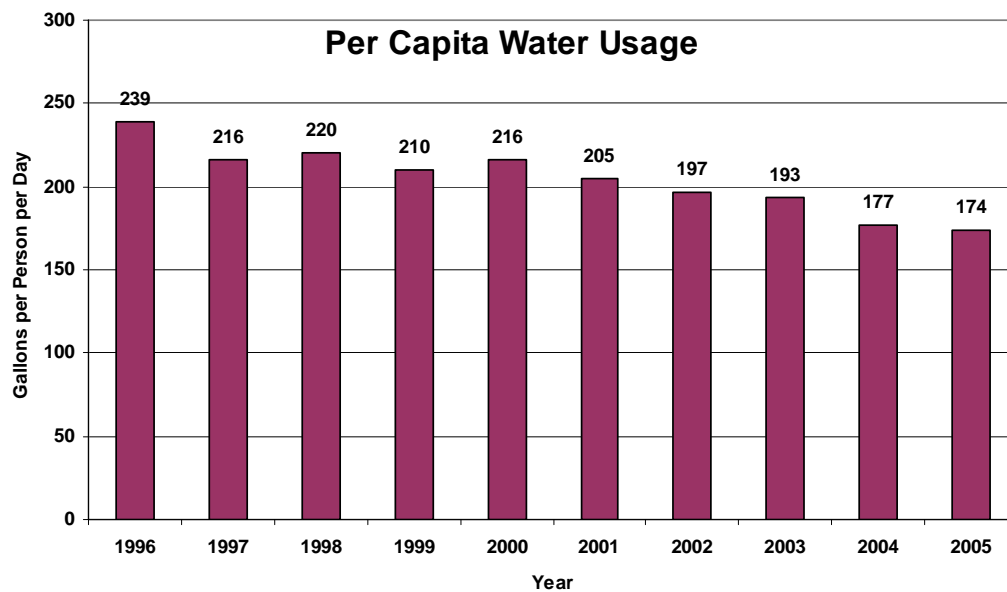
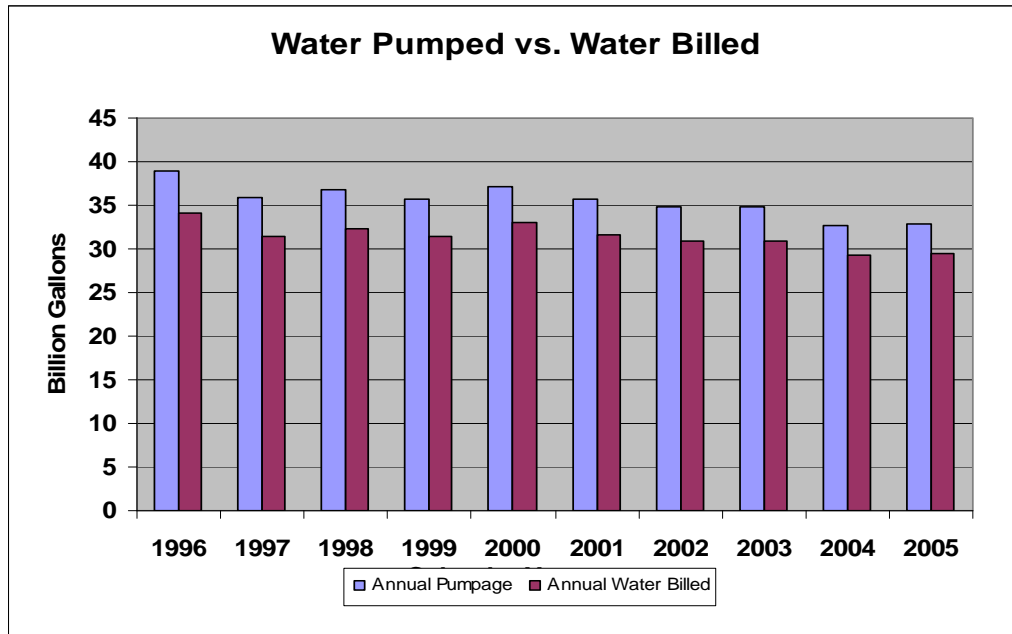
History of Water Users by Meter Sizes

<u>Meter Size</u>	<u>Average Number of Customers by Fiscal Year</u>									
	<u>1997</u>	<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>
¾"	113,434	115,818	118,730	121,854	124,523	128,192	132,387	139,351	142,018	145,157
1" and 1 ¼ "	20,478	20,290	20,076	19,899	19,692	19,153	18,321	17,863	17,588	17,589
1 ½ "	1,773	1,805	1,817	1,838	1,846	1,854	1,847	1,854	1,879	1,877
2"	1,698	1,740	1,769	1,822	1,868	1,892	1,905	1,958	1,997	1,762
3"	357	378	401	404	406	410	412	524	419	591
4"	222	228	233	238	242	246	247	311	251	240
6"	54	54	55	55	55	55	55	73	52	52
8" and over	<u>40</u>	<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>
Total	<u>138,056</u>	<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>167,309</u>



Source: Albuquerque Bernalillo County Water Utility Authority

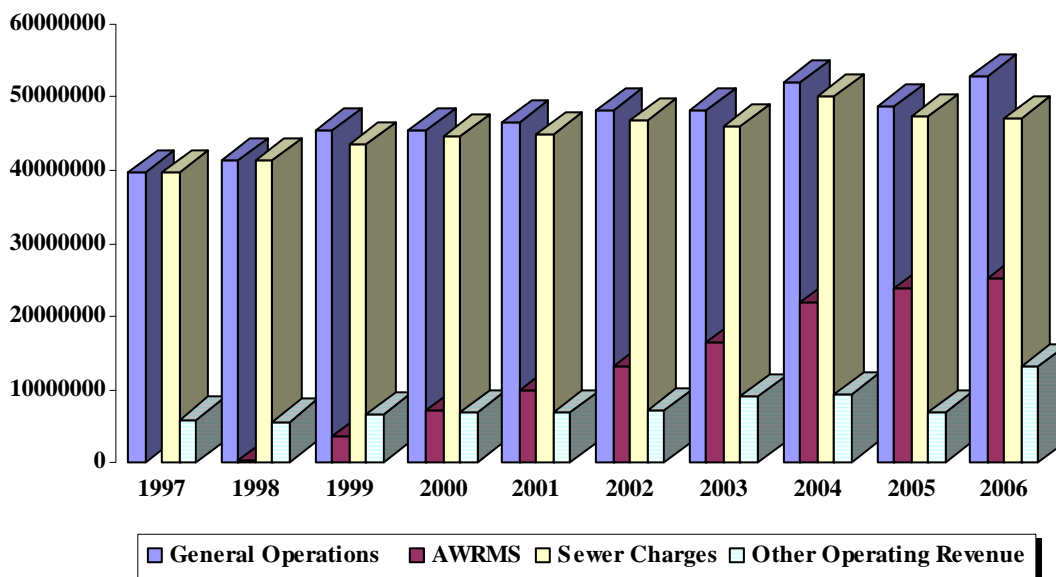
**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
WATER CONSUMPTION
LAST 10 CALENDAR YEARS**



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**

<u>Fiscal Year</u>	<i>Revenue from Water Charges</i>				
	<u>For General Operations</u>	<u>For AWRMS⁽¹⁾</u>	<u>Revenue From Sewer Charges</u>	<u>Other Operating Revenue⁽²⁾</u>	<u>Total Operating Revenue</u>
1997 ⁽³⁾	39,552,340		39,771,944	5,998,929	85,323,213
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⁾	52,768,000	25,095,858	47,055,000	13,283,532	138,202,390



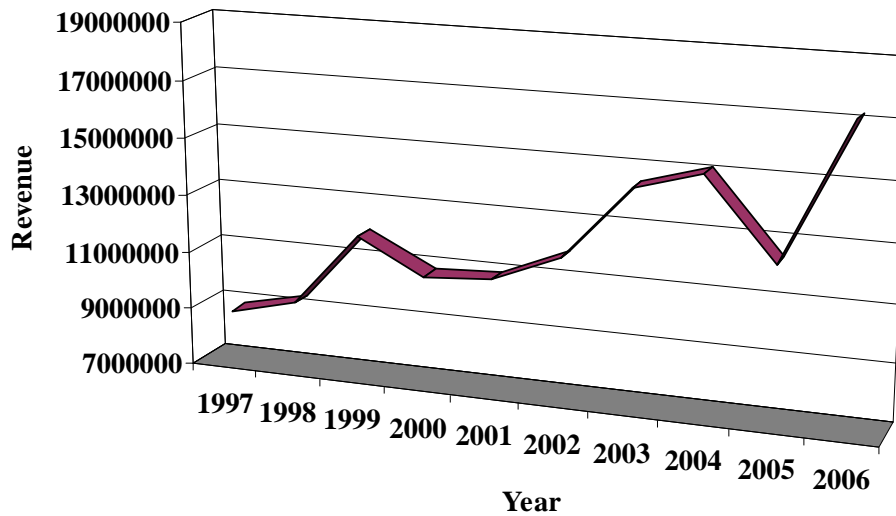
(1) These revenues are attributable to rate increases adopted by City Council to finance capital costs and operating expenses to implement the Albuquerque Water Resource Management Strategy ("AWRMS").
 (2) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.
 (3) Sources: City of Albuquerque Comprehensive Annual Financial Reports.
 (4) Sources: 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
REVENUE FROM UTILITY EXPANSION CHARGES
LAST TEN YEARS**

**REVENUE FROM UTILITY EXPANSION CHARGES
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Total Utility Expansion Charge Revenues</u>
1997(1)	\$ 8,829,595
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

Utility Expansion Revenue



(1) Source: City of Albuquerque Comprehensive Annual Financial Report

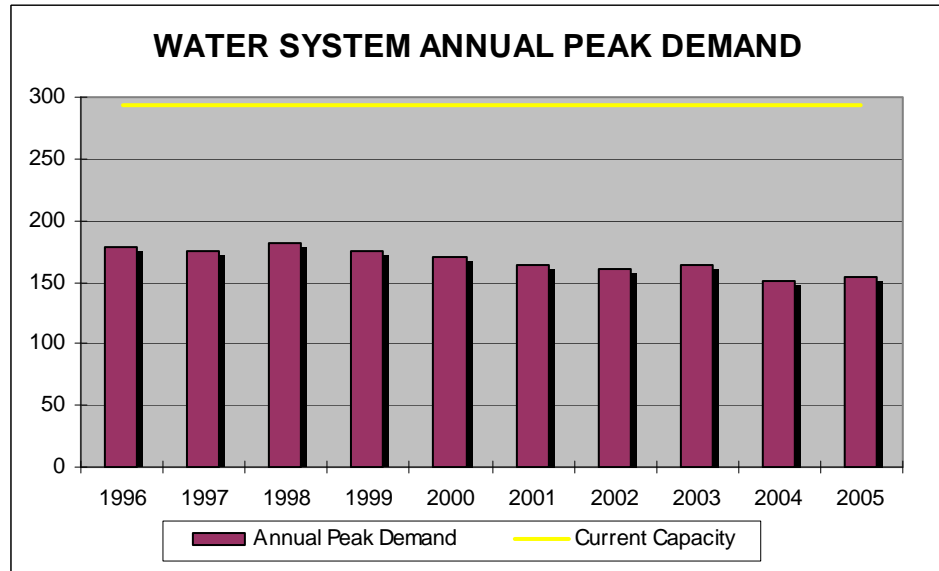
(2) Source: Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report

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

◇ *Current system peak demand of 164 MGD*

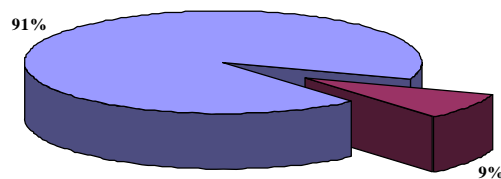
◇ *Current system peak of 294 MGD*

◇ *System's current peak demand is 89% of capacity*



WATER SYSTEM TOP 10 CUSTOMERS

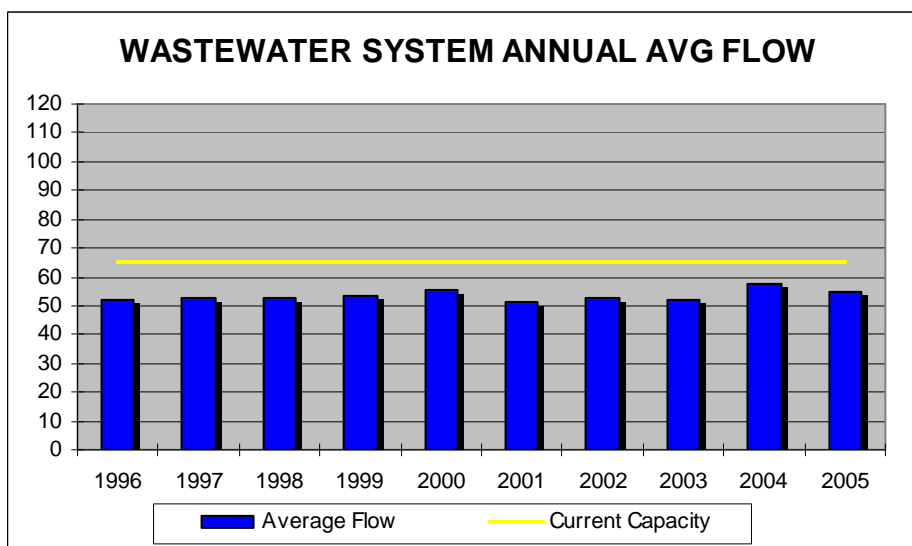
	<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2005 Revenue</u>	<u>% of Total Revenue</u>
1.	CITY OF ALBUQUERQUE ALBUQUERQUE PUBLIC	649,754	\$ 3,960,072	5.03%
2.	SCHOOLS	391,905	1,323,703	1.68%
3.	TANOAN COUNTRY CLUB	237,526	467,234	0.59%
4.	UNM PHYSICAL PLANT	160,344	563,406	0.72%
5.	BALLOON FIESTA PARK	92,477	146,984	0.19%
6.	SUMITOMO SITIX	75,875	401,495	0.51%
7.	SUN VILLAGE APTS	73,476	134,994	0.17%
8.	GENERAL MILLS	69,910	141,609	0.18%
9.	TRI - GAS	68,114	220,304	0.28%
10.	NEW MEXICO STATE FAIRGROUNDS	66,645	168,950	0.21%
	Total		\$ 7,528,752	9.57%
	Total Revenue for System		\$ 78,704,817	



Source: Albuquerque Bernalillo County Water Utility Authority

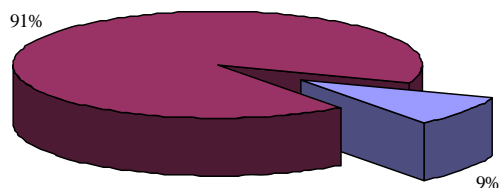
**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
WASTEWATER SYSTEM ANNUAL AVERAGE FLOW AND TOP TEN CUSTOMERS**

- ◇ *Current system peak demand of 58 MGD*
- ◇ *Current system peak of 68 MGD*
- ◇ *System's current peak demand is 89% of capacity*



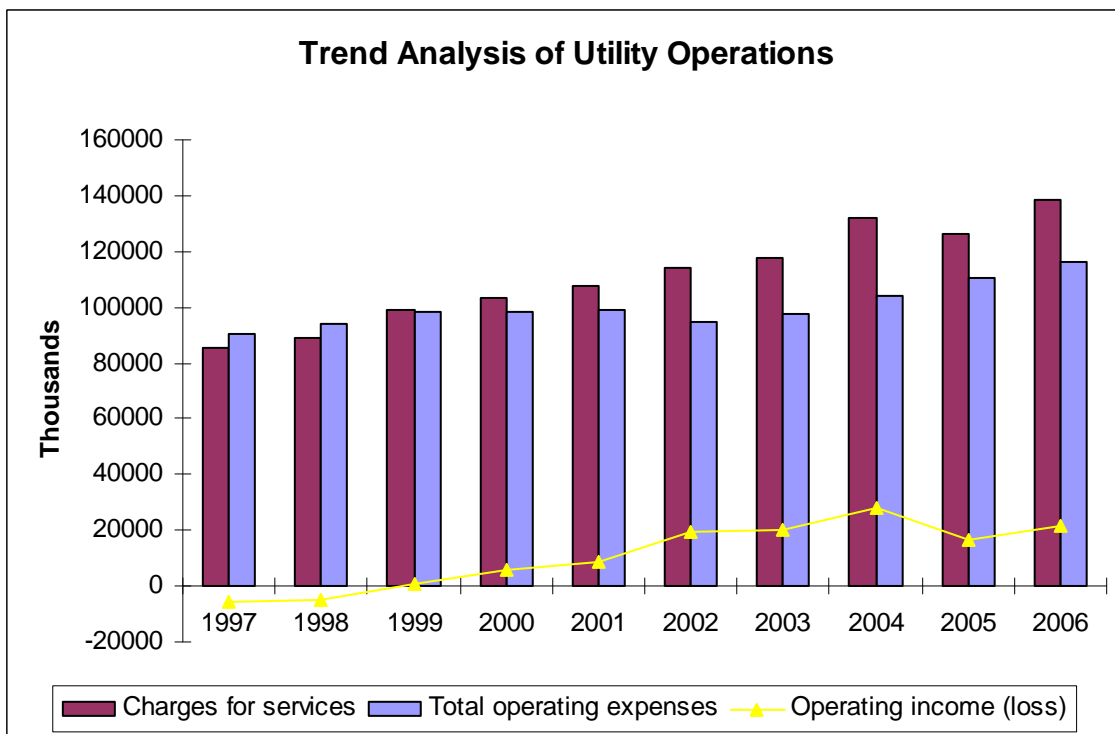
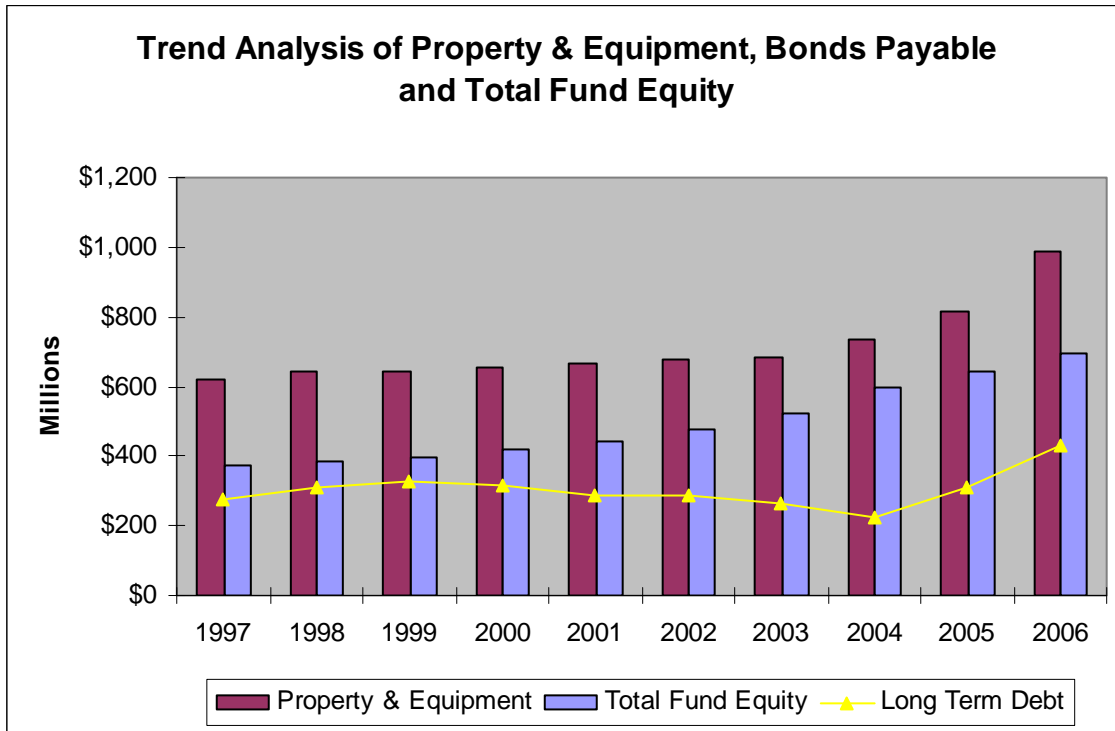
WASTEWATER SYSTEM TOP 10 CUSTOMERS

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2005 Revenue</u>	<u>% of Total Revenue</u>
1. NEW MEXICO UTILITIES	1,748,131	\$ 2,375,551	5.02%
2. KIRTLAND AIR FORCE BASE	777,233	1,063,253	2.25%
3. UNM PHYSICAL PLANT	214,418	215,946	0.46%
4. SANDIA HEIGHTS	64,953	65,728	0.14%
5. RIO GRANDE ZOO	64,632	152,768	0.32%
6. UNM HOSPITAL	51,833	124,800	0.26%
7. CREAMLAND DAIRIES	42,848	72,489	0.15%
8. FOUR HILLS MHP	39,336	78,484	0.17%
9. PNM	35,360	96,600	0.20%
10. SUMITOMO	29,453	54,562	0.12%
Total		\$ 4,300,181	9.09%
Total Revenue for System		\$ 47,310,366	



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**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Water Utility Authority Revenue Bonds (1)				
Revenues	\$ 99,616	\$ 102,802	\$ 114,446	\$ 118,818
Expenses (2)	49,915	50,122	52,971	53,114
Available for debt service	49,701	52,680	61,475	65,704
Debt service	27,654	31,343	38,599	43,511
Debt service coverage ratio	1.8	1.7	1.6	1.5

(1) 1995 - 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.

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	Ratio Required <u>2006</u>
\$ 125,002	\$ 129,425	\$ 139,937	\$ 150,224	\$ 144,074	163,005	
57,815	55,356	57,315	55,892	59,005	62,326	
67,187	74,069	82,622	94,332	522	100,680	
44,703	45,919	47,516	49,179	52,279	57,176	
1.5	1.6	1.7	1.9	1.6	1.8	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		
	2004	2005	2006
Invested in capital assets, net of related debt	\$ 517,181,729	\$ 566,451,130	\$ 609,954,619
Restricted for debt service	10,393,256	11,490,993	12,919,005
Restricted for construction	17,576,362	26,620,816	5,539,537
Unrestricted	54,948,525	37,443,588	65,803,570
Total Net Assets	\$ 600,099,872	\$ 642,006,527	\$ 694,216,731

**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>2004</u>	<u>2005</u>	<u>2006</u>
Revenue bonds, net	\$ 213,188,570	\$ 182,194,318	289,213,339
Notes payable	26,029,055	147,928,325	159,711,796
Water rights contract	19,989,505	19,197,151	18,380,662
Total outstanding obligations	<u>\$ 259,207,130</u>	<u>\$ 349,319,794</u>	<u>\$ 467,305,797</u>
Number of Customers	162,002	164,245	167,309
Average debt per customer	\$ 1,600	\$ 2,127	\$ 2,793
Estimated populations	512,288	525,347	531,651
Per Capita debt	\$ 506	\$ 665	\$ 879

**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/	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)	3,000 cf (22,440 gal)	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

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, 2006

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. The City did notify the State Auditor's Office in writing that staff changes would delay preparation of the report.

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, 2006

06-12 Gross Receipts Tax Accrual in Refuse and Joint Water Sewer

Condition. There is an unreconciled difference between what the City reported and paid to the State for June gross receipts tax and the accrual recorded in the general ledger for Refuse and Joint Water Sewer (JWS). At June 30, 2006, Refuse recorded \$125,872 more in gross receipts tax payable in the general ledger than what was reported and paid to the State; and for JWS, \$77,694 more was recorded in the general ledger than what was reported and paid to the State.

Criteria. Good accounting practice and strong internal controls include a reconciliation of general ledger accounts to supporting schedules.

Cause. A new billing system was implemented in 2006. The system automatically records the gross receipts tax when bills are created. The City has not determined if system is incorrectly calculating gross receipts taxes or if it is not properly relieving the accrual when cash receipts are posted. The account balance was not reconciled to the tax return.

Effect. Gross receipts tax in the general ledger may be over stated.

Recommendation. The variance in gross receipts tax should be investigated and resolved. Additionally, account balances should be reconciled to subsidiary ledgers and/or supporting schedules and variances identified investigated and resolved in a timely manner.

Management Response. The City will reconcile the variance between the gross receipt tax accrual and the amount subsequently paid. Based upon the result of the reconciliation, the City will take the necessary corrective action.

ALBUQUERQUE BERNALILLO COUNT WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATUS OF PRIOR AUDIT RECOMMENDATIONS
YEAR ENDED JUNE 30, 2006

05-01 Fixed Assets
05-02 Audit Report Due Date

Resolved
Repeated

ALBUQUERQUE BERNALILLO COUNT WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
EXIT CONFERENCE
June 30, 2006

An exit conference was held on August 16, 2007, and attended by the following:

AUTHORITY PERSONNEL:

Bruce J. Perlman, Ph.D., CAO
City of Albuquerque, Board Member

Mark Sanchez
Executive Director

Stanley Allred
Finance Manager

Cliff Wintrode
Budget Analyst

CITY PERSONNEL:

Greg Stricklin
Accounting Officer

Debbie Dombroski
Accounting Manager

MOSS ADAMS PERSONNEL:

Valerie Allen
Partner

Wayne Brown
Partner

Amy Myer
Manager