

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 THE FINANCIAL REPORTING ENTITY

The City of Albuquerque, New Mexico (City), was founded in 1706, chartered as a town in 1885, and organized under territorial law as a city in 1891. The City became a charter city in 1917, and the voters approved a home rule amendment to the charter in 1971. In 1974, the electorate voted to establish a mayor-council form of government; the City Council consists of nine council members elected from districts. As a governmental entity, the City is not subject to Federal or State income taxes.

The City provides traditional services such as public safety, culture and recreation, public works, highways and streets, water and sewer services, and refuse collection. In addition, the City operates parking facilities, a transit system, an international airport, corrections and detention facilities, and a housing authority.

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

1. (a) appointment by the City of a majority of voting members of the governing body of an organization, and
(b) ability of the City 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 City; or
3. fiscal dependency by the organization on the City such as from the lack of authority to determine its budget or issue its own bonded debt without City approval.

Based on the foregoing criteria, the City has determined that Albuquerque Bernalillo County Water Utility Authority (Authority), created with an effective date of July 1, 2003, is a component unit of the City. The Authority's governing board is composed of three members of the City Council, three members of the County of Bernalillo Commission and the Mayor of the City. See Note 23.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Albuquerque have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The more significant of the government's accounting policies are described below.

A. Basis of Presentation

The financial transactions of the City are recorded in individual funds, each of which is considered a separate accounting entity. All financial transactions are reported in basic financial statements, as follows:

1. Government-wide Financial Statements:

The *statement of net assets* and the *statement of activities* display information about the primary government and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The net assets of the City are reported in three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. 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 City's policy to use restricted resources first, and then unrestricted resources as needed.

CITY OF ALBUQUERQUE, NEW MEXICO
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

A. Basis of Presentation, continued

The *statement of activities* presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Amounts reported as program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. Indirect expense allocations that have been made in the funds are shown in a separate column and are not included in the expenses column. The allocation of indirect expenses is based on the relative usage by the function charged to all functions for services rendered by all central service activities of the general government such as Accounting, Information Services, Treasury, Budgeting, and other central services.

2. Fund Financial Statements:

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category; governmental, proprietary, and fiduciary, are presented. The emphasis of fund financial statements is on major governmental and business-type (enterprise) funds, each displayed in a separate column. All remaining governmental and business-type (enterprise) funds are aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues, such as charges for services, result from exchange transactions in which each party receives and gives up essentially equal values. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues or expenses. These include operating subsidies, investment earnings, interest expense, and transactions that result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

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

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

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

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

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

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

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

CITY OF ALBUQUERQUE, NEW MEXICO
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

A. Basis of Presentation, continued

The City reports the following fund types:

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

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

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

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

Permanent Funds. These funds account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific programs.

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

Agency Funds. These funds account for monies held by the City in a custodial capacity on behalf of third parties or other agencies.

B. Measurement Focus, Basis of Accounting

1. Government-Wide, Proprietary and Agency Fund Financial Statements

The government-wide, proprietary, and agency fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts and property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes, net of estimated refunds and uncollectible amounts, is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements are met.

All governmental and business-type activities of the City follow FASB Statements and interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The City has elected not to follow FASB Statements and interpretations issued after November 30, 1989.

2. Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collectible within the current period or within one month following the year-end. Revenues not considered available are recorded as deferred revenues. Property taxes, gross receipts taxes, franchise taxes, licenses, and interest are considered susceptible to accrual. All other revenue items are considered to be measurable and available only when the City receives cash.

Expenditures are recorded when the related fund liability is incurred, except for a) principal and interest payments on general long-term debt which are recorded when amounts have been accumulated in the debt service funds for the current debt service payments on July 1 in the following year and b) vacation and sick leave pay, which are recognized as expenditures only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. Statement of Cash Flows

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

D. 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.

E. Cash, Investments, and Accrued Interest

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

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

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

The investment in the State of New Mexico local government investment pool is valued at \$1.00 per share. It is a pool that is not registered with the United States Securities Exchange Commission and the regulatory oversight for that pool rests with the State of New Mexico's Treasurer through the State Treasurer's Investment Committee. 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:

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.

U.S. Treasury Obligations - bills, notes, and bonds.

Obligations of Federal Agencies or Instrumentalities - interest bearing or discount form.

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:

Checking accounts - at insured financial institutions.

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).

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

F. Inventories of Supplies

Inventories of supplies are valued at average cost. Expenditures in governmental funds and expenses in proprietary funds are recorded as inventory items are consumed.

G. Land Held for Sale

Land held for sale, which consists primarily of approximately 4,357 acres located throughout the State of New Mexico obtained by trade with the federal government in July 1982, is part of the Acquisition and Management of Open Space Permanent Fund. Upon sale of these properties, a portion of the gain, if any, as defined in an agreement, is payable to a third party. Other land was obtained through foreclosure proceedings required by special assessment bond ordinances. The land for sale is valued at cost, which does not exceed market value.

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

H. Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. 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. Works of art and historical treasures are not capitalized because those are: 1) held for public exhibition rather than for financial gain, 2) protected, kept unencumbered, cared for, and preserved, and 3) all proceeds from the sale of collection items are required to be used to acquire other items for collections. Software is capitalized when acquired while library books are not capitalized because the aggregated cost of books is considered immaterial. Donated capital assets are recorded at estimated fair market value at the date of donation. General infrastructure assets (roadways and related street and signal lights, storm sewers, bike trails, and bridges) acquired or constructed prior to July 1, 2001 have not been reported.

Capital outlay is recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of capital assets of the business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

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

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

Buildings and improvements	15 - 50 years
Runways and other improvements	15 - 25 years
General infrastructure assets	30 years
Improvements other than buildings and runways	15 - 20 years
Machinery and equipment	3 - 13 years

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

I. Deferred Charges and Other Assets

Land acquired in a claim settlement is recorded at the lower of cost or appraised value. The appraised value reflects the impairment of the asset, which was caused by underground contamination that seeped from an adjacent inactive landfill maintained by the City.

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.

J. Claims and Judgments

Liabilities for workers' compensation, tort and other claims as of June 30, 2005, were accrued based on actuarial estimates of the City's self-insurance programs. At June 30, 2005, liabilities were based on a case-by-case evaluation of the probable outcome of claims filed against the City, as well as an estimate of claims incurred but not reported. The long-term portion of the liability is discounted at 5.0% at June 30, 2005, and 5.0% for 2004, over the estimated payment period. Revenues consist primarily of charges to other funds, the amounts of which approximate the cost of claims and other risk management costs arising from the activities of those funds.

K. Accrued Vacation and Sick Leave Pay

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

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

L. Deferred Revenue

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

M. Special Assessments

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

N. Long-term Obligations

Long-term obligations used to finance proprietary fund capital acquisitions and payable from revenue of proprietary funds are recorded in the applicable proprietary fund. Long-term obligations of governmental funds payable from general revenues of the City and special assessment levies are reported in the government-wide financial statements.

CITY OF ALBUQUERQUE, NEW MEXICO
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

O. Fund Balance Reserves and Designations

The City records reserves to indicate that a portion of fund balance is legally restricted for a specific future use or is not available for appropriation and/or expenditure. At June 30, 2005, fund balances were reserved for:

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

Inventories of supplies - the amount of inventories on hand not available for appropriation.

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

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

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

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

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

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

Operations - a portion of the fund balance of the General Fund restricted by the City Council from expenditure, except by specific appropriation, for the purpose of maintaining existing levels of government services to the public.

P. Encumbrances

Encumbrances, outstanding at fiscal year end and that will be re-appropriated for the following fiscal year, are recorded as a reservation of fund balance and are not included in expenditures.

Q. Unbilled Revenues

Refuse services are billed on a cycle basis; therefore, amounts for services provided but unbilled as of June 30, 2005 are not included in receivables or revenue of the enterprise fund. Such unbilled amounts are not material to the financial position and results of operations of the Refuse Disposal Fund.

R. Inter-fund Transactions

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

CITY OF ALBUQUERQUE, NEW MEXICO
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

S. Budgets

Annual budgets for the General Fund, certain Special Revenue Funds, and certain Debt Service Funds are departmental appropriations by program, the level at which expenditures may not legally exceed appropriations. The annual budget approved by the City Council also includes proprietary funds. The budgetary data is prepared consistent with the basis of accounting described in Note 2B. As required by the home rule City charter, the annual budget is formulated by the Mayor and submitted to the City Council by April 1 for the fiscal year commencing July 1. When there is a proposal for a change in rates or fees, City ordinances provide that the Mayor shall submit the operating budget for the Refuse Disposal, Golf, and Aviation enterprise funds to the City Council no later than March 1. Public hearings are conducted to obtain citizen comments on the proposed budget. By June 1, the budget is legally adopted through passage of an appropriation resolution by the City Council.

The Mayor has the authority to change individual program appropriations by the lesser of five percent of the original appropriation or \$100,000, provided that the total amount of appropriations for the fund as approved by the City Council does not change. Approved appropriations lapse at the end of the fiscal year to the extent that they have not been expended or encumbered except any appropriation continued by ordinance. During fiscal year 2005, several supplemental appropriations were necessary.

An annual budget, which is not legally adopted, for the City of Albuquerque Housing Authority is prepared in accordance with the Department of Housing and Urban Development regulations on an accrual basis and includes both operating and debt service activities as a single budget. The Special Assessments Debt Service Fund spending is controlled primarily through bond indenture provisions and the Capital Projects Funds do not have annual budgets.

CITY OF ALBUQUERQUE, NEW MEXICO
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NOTE 3 RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the Governmental Fund Balance Sheet and the Government-Wide Statement Of Net Assets.

Total fund balances of the City's governmental funds, \$372,281,052, differ from net assets of governmental activities, \$938,261,578, reported in the Statement Of Net Assets. The differences primarily result from the long-term economic focus in the Statement Of Net Assets versus the current financial resources focus in the Governmental Fund Balance Sheets. The differences (*in thousands*) are illustrated below:

	<u>Total Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Long-term Assets & Liabilities</u>	<u>Reclassi- fications and Eliminations</u>	<u>Statement of Net Assets Totals</u>
Assets:					
Cash, investments and accrued interest	\$ 417,759	\$ 45,972	\$ -	\$ (95,374)	\$ 368,357
Taxes receivable	64,319	-	-	-	64,319
Accounts receivable	25,099	-	-	(18,087)	7,012
Due from other governments	15,683	68	-	-	15,751
Accrued interest	-	-	-	-	-
Deposit	-	113	-	-	113
Long-term accounts and notes receivable	-	-	26	18,087	18,113
Internal balances	23,514	2,303	-	(3,617)	22,200
Inventories	453	2,096	-	-	2,549
Prepaid expenses	70	281	-	-	351
Restricted assets:					
Cash, investments and accrued interest	-	-	-	95,374	95,374
Capital assets:					
Land and construction in progress	-	284	600,724	-	601,008
Capital assets being depreciated	-	2,621	700,840	-	703,461
Accumulated depreciation	-	(2,202)	(348,559)	-	(350,761)
Deferred charges and other assets	5,066	1,730	1,860	-	8,656
Total assets	\$ 551,963	\$ 53,266	\$ 954,891	\$ (3,617)	\$ 1,556,503
Liabilities:					
Accounts payable	\$ 28,793	\$ 4,669	\$ -	\$ -	\$ 33,462
Accrued liabilities	18,333	214	-	7,048	25,595
Deposits	1,099	-	-	-	1,099
Due to other funds/advances	3,617	-	-	(3,617)	-
Due to other governments	1,127	-	-	-	1,127
Deferred revenues	55,896	-	(36,845)	-	19,051
Current portion of long-term obligations:					
Bonds and notes payable	-	-	61,923	-	61,923
Accrued vacation and sick leave pay	-	456	18,351	-	18,807
Accrued claims payable	-	17,505	-	-	17,505
Matured principal and interest	70,817	-	(63,769)	(7,048)	-
Non current long-term obligations:					
Bonds and notes payable	-	-	396,837	-	396,837
Accrued vacation and sick leave pay	-	138	8,779	-	8,917
Accrued claims payable	-	32,875	-	-	32,875
Deferred credit	-	-	1,044	-	1,044
Total liabilities	179,682	55,857	386,320	(3,617)	618,242
Fund balances/net assets (deficit)	372,281	(2,591)	568,571	-	938,261
Total liabilities and fund balances/net assets	\$ 551,963	\$ 53,266	\$ 954,891	\$ (3,617)	\$ 1,556,503

CITY OF ALBUQUERQUE, NEW MEXICO
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June 30, 2005

NOTE 3 RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, continued

B. Explanation of certain differences between the Governmental Fund Statement Of Revenues, Expenditures, And Changes In Fund Balances and the Government-Wide Statement Of Net Activities.

The net change in fund balances for governmental funds, \$16,169,857, differ from the change in net assets for governmental activities, \$92,565,716, reported in the Statement Of Activities. The differences arise primarily from the long-term economic focus in the Statement Of Activities versus the current financial resources focus in the governmental funds. The differences (*in thousands*) are illustrated below:

	Total Governmental Funds	Internal Service Funds	Long-term Revenues/ Expenses	Reclassi- fications and Eliminations	Statement of Activities Totals
Revenues:					
Taxes:					
Property tax	\$ 92,474	\$ -	\$ 73	\$ -	\$ 92,547
Gross receipts tax	163,169	-	81	-	163,250
Payments in lieu of taxes	4,770	-	-	-	4,770
Franchise tax	18,354	-	-	-	18,354
Lodgers tax	9,019	-	-	-	9,019
Hospitality tax	1,784	-	-	-	1,784
Licenses and permits	17,801	-	-	-	17,801
Intergovernmental	251,325	-	115	-	251,440
Charges for services	51,415	-	-	(8,088)	43,327
Fines and forfeits	1,157	-	-	-	1,157
Investment earnings	12,297	1,021	(848)	-	12,470
Special assessments	5,148	-	-	-	5,148
Other revenue	11,263	91	(44,727)	55	(33,318)
Total revenues	639,976	1,112	(45,306)	(8,033)	587,749
Expenditures/Expenses:					
Current:					
General government	68,849	(660)	1,952	(2,590)	67,551
Corrections	46,376	(559)	349	(1,511)	44,655
Fire	58,244	(218)	(2,260)	(135)	55,631
Police	111,593	(1,446)	1,412	(1,876)	109,683
Culture and recreation	63,385	(433)	9,729	9,428	82,109
Public works	9,190	(35)	1,151	(100)	10,206
Highways and streets	15,566	(306)	832	(4,107)	11,985
Health	13,789	(86)	(75)	(257)	13,371
Human services	52,151	(136)	(1,071)	(372)	50,572
Housing	6,199	-	189	-	6,388
Special assessments	-	-	-	3,284	3,284
Debt service:					
Principal retirement	95,492	-	(95,492)	-	-
Interest and other fiscal charges	15,833	-	11,269	(12,354)	14,748
Bond issuance costs	380	-	(1,228)	(86)	(934)
Capital outlay	174,569	-	(164,717)	(9,852)	-
Miscellaneous	-	-	(55)	55	-
Total expenditures/expenses	731,616	(3,879)	(238,015)	(20,473)	469,249
Other financing sources (uses)/changes in net assets:					
Net transfers (to) from other funds	(25,665)	(269)	-	-	(25,934)
Proceeds from issuance of bonds and loans	133,475	-	(121,035)	(12,440)	-
Total other financing sources (uses)/changes in net assets	107,810	(269)	(121,035)	(12,440)	(25,934)
Net change for the year	\$ 16,170	\$ 4,722	\$ 71,674	\$ -	\$ 92,566

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June 30, 2005

NOTE 4 CASH AND CASH EQUIVALENTS

A. Cash, Investments, Accrued Interest and Cash with Fiscal Agents

The total cash, investments, accrued interest and cash with fiscal agents, net of cash overdrafts of the City at June 30, 2005, consist of the following:

	(In thousands of dollars)				
	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>	<u>Component Unit</u>
Cash, investments, accrued interest and cash with fiscal agents, net of unamortized discounts and premiums:					
Repurchase agreements	\$ 135,574	\$ 56,548	\$ 4,426	\$ 196,548	\$ 43,452
Obligations of federal agencies or instrumentalities	223,024	93,023	7,280	323,327	71,481
State of New Mexico investment council	27,578	-	-	27,578	-
State of New Mexico local government investment pool	-	6,732	-	6,732	-
Held in trust by NMFA in State of New Mexico local government investment pool	-	-	-	-	847
Held in trust by Wells Fargo Bank in U.S. Treasury Fund	67	2,648	-	2,715	-
Held in trust by Bank of Albuquerque in U.S. Treasury Fund	2,494	-	-	2,494	458
Total investments	<u>388,737</u>	<u>158,951</u>	<u>11,706</u>	<u>559,394</u>	<u>116,238</u>
Certificates of deposit	200	-	-	200	-
Bank accounts at book balance	73,552	25,227	1,724	100,503	40,868
Total bank balances	<u>73,752</u>	<u>25,227</u>	<u>1,724</u>	<u>100,703</u>	<u>40,868</u>
Accrued interest receivable	959	378	30	1,367	291
Imprest cash funds	187	14	-	201	-
Total other	<u>1,146</u>	<u>392</u>	<u>30</u>	<u>1,568</u>	<u>291</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 463,635</u>	<u>\$ 184,570</u>	<u>\$ 13,460</u>	<u>\$ 661,665</u>	<u>\$ 157,397</u>
Current cash, investments and accrued interest:					
Cash, investments and accrued interest	\$ 294,997	\$ 32,433	\$ 11,801	339,231	\$ 5,061
Cash and investments with fiscal agents	73,264	19,054	-	92,318	37,469
Total current cash, investments and accrued interest	<u>368,261</u>	<u>51,487</u>	<u>11,801</u>	<u>431,549</u>	<u>42,530</u>
Noncurrent cash, investments and accrued interest:					
Cash, investments and accrued interest	95,374	133,083	1,659	230,116	113,562
Cash and investments with fiscal agents	-	-	-	-	1,305
Total noncurrent cash, investments and accrued interest	<u>95,374</u>	<u>133,083</u>	<u>1,659</u>	<u>230,116</u>	<u>114,867</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 463,635</u>	<u>\$ 184,570</u>	<u>\$ 13,460</u>	<u>\$ 661,665</u>	<u>\$ 157,397</u>

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 4 CASH AND CASH EQUIVALENTS, continued

A. Cash, Investments, Accrued Interest and Cash with Fiscal Agents, continued

The City chose to early implement the provisions of GASB Statement No. 40, Deposit and Investment Risk Disclosure – an amendment of GASB Statement No. 3 effective for Financial Statements dated June 30, 2004. The objective of this Statement is to update the custodial credit risk disclosure requirements of Statement 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The Statement changes the content and form of the risk disclosure in the footnotes. The Statement requires disclosure of four types of risk - 1) custodial credit risk for bank deposits and investments 2) credit risk 3) concentration of credit risk and 4) interest rate risk.

- 1A. 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, 2005, none of the City’s bank balances of \$150,837,762 was exposed to custodial credit risk.

- 1B. 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.

2. 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, 2005 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.

3. 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.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 4 CASH AND CASH EQUIVALENTS, continued

A. Cash, Investments, Accrued Interest and Cash with Fiscal Agents, continued

3. Concentration of credit risk, continued

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 53.13%, 32.58% and 14.29% respectively of the non-repurchase agreement portfolio and 33.18%, 20.34% and 8.92% of the total portfolio.

4. 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, 2005 was 227.40 days. The weighted average days to call of the same portfolio was 227.40 days.

B. 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, 2005, consists of the following:

(In thousands of dollars)

	First State Bank (Water)	First State Bank (Housing)	Bank of America	Wells Fargo Bank	Compass Bank	Bank 1st	Union Bank	NM Bank & Trust
Total amount on deposit	\$ 4,057	\$ 5,673	\$138,578	\$ 2,259	\$ 6	\$ 100	\$ 100	\$ 64
Less FDIC coverage	100	100	100	100	6	100	100	64
Total uninsured public funds	3,957	5,573	138,478	2,159	-	-	-	-
50% collateral requirement	1,979	2,787	69,239	1,079	-	-	-	-
Pledged securities, fair value	4,048	6,475	74,006	1,404	-	-	-	75
Pledged in excess (deficit) of requirement	\$ 2,069	\$ 3,688	\$ 4,767	\$ 325	\$ -	\$ -	\$ -	\$ 75

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 5 TAXES, ACCOUNTS AND NOTES RECEIVABLE

A. Taxes receivable

The taxes receivable at June 30, 2005 are from the following sources:

Gross receipts tax	\$58,094,629
Property tax	4,420,433
Lodgers tax	920,436
Hospitality tax	330,688
Other taxes	<u>552,382</u>
Total	<u>\$64,318,568</u>

The property taxes above include a receivable of \$3,057,606 in the General Obligation Debt Service Fund, \$1,272,781 in the General Fund, and \$90,046 in the Metropolitan Redevelopment Fund.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied each year on July 1 on the taxable valuation of property located in the City as of the preceding January 1. The Bernalillo County Assessor and the State of New Mexico Department of Taxation and Revenue determine the taxable valuations for the various classes of property at one-third of assessed valuation. Property in the City for the fiscal year 2005 tax levy had a taxable value of \$8,289,292,625. The State Constitution limits the rate of taxes for operating purposes for all taxing jurisdictions to 20 mills (\$20 per \$1000 assessed valuation), of which the City's portion, by state regulation, is limited to 2.225 mills. The 2005 weighted average residential and non-residential City rate for both operations and debt service was 11.149 mills. Taxes are payable in two equal installments on November 10 and April 10 and become delinquent after 30 days.

B. Accounts receivable and Allowance for uncollectible accounts

Included on Exhibit A-1, "Statement of Net Assets", are balances of receivables, which are reported, net of allowances for uncollectible accounts. The amounts of these receivables that have allowances as of June 30, 2005, are as follows:

	<u>Total receivables</u>	<u>Allowance for uncollectible accounts</u>	<u>Net receivables</u>
Government activities:			
Major funds:			
General Fund	\$ 3,999,923	\$ 389,497	\$ 3,610,426
Capital Acquisition Fund	1,473,141	18,907	1,454,234
Nonmajor governmental funds	<u>2,775,872</u>	<u>828,398</u>	<u>1,947,474</u>
Total government activity funds	<u>\$ 8,248,936</u>	<u>\$ 1,236,802</u>	<u>\$ 7,012,134</u>
Business-type activities:			
Major funds:			
Airport	\$ 4,455,590	\$ 788,519	\$ 3,667,071
Refuse Disposal	2,819,778	284,996	2,534,782
Transit	203,095	10,182	192,913
Nonmajor enterprise funds	<u>1,632,979</u>	<u>947,109</u>	<u>685,870</u>
Total business-type activity funds	<u>\$ 9,111,442</u>	<u>\$ 2,030,806</u>	<u>\$ 7,080,636</u>

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 5 TAXES, ACCOUNTS AND NOTES RECEIVABLE, continued

C. Long-term And Notes Receivable

Included in Exhibit A-1 are long-term receivables as follows:

	<u>Total receivables</u>	<u>Allowance for uncollectible accounts</u>	<u>Net receivables</u>
Government activities:			
Nonmajor funds:			
Rehabilitation loans	\$ 3,074,296	\$ 1,269,195	\$ 1,805,101
Notes receivable	38,553	-	38,553
Developer loans	1,885,282	-	1,885,282
Special assessments debt service*	11,809,528	-	11,809,528
Real estate contracts	2,575,068	-	2,575,068
Total government activity funds	\$ 19,382,727	\$ 1,269,195	\$ 18,113,532
 Business-type activities:			
Nonmajor funds:			
Developer loans	3,626,651	-	3,626,651
Total business-type activity funds	\$ 3,626,651	\$ -	\$ 3,626,651

NOTE 6 INTERFUND RECEIVABLE AND PAYABLE

The interfund receivable and payable accounts have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2005, consist of the following:

	<u>Due from other funds</u>	<u>Due to other funds</u>
Major governmental funds:		
General Fund	\$ 1,005,868	\$ 2,303,484
Nonmajor governmental funds	-	1,005,868
Internal Service Funds	2,303,484	-
Total	\$ 3,309,352	\$ 3,309,352

NOTE 7 INTERFUND ADVANCES

Interfund advances to be repaid from revenues or proceeds from the sale of assets are as follows as of June 30, 2005.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Acquisition Fund	\$ 112,000
	Open Space Expenditures Fund	195,636
Nonmajor governmental fund *	Nonmajor enterprise fund *	22,200,000
Total advances		\$ 22,507,636

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

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 8 CAPITAL ASSETS

Capital asset activity of the City for the year ended June 30, 2005, was as follows:

A. Governmental Activities

	<u>Balance</u> <u>July 1*</u>	<u>Additions*</u>	<u>Deductions*</u>	<u>Balance</u> <u>June 30*</u>
Assets not being depreciated:				
Land	\$ 215,941,528	\$ 16,118,436	\$ 265,952	\$ 231,794,012
Construction work in progress	223,532,205	149,646,243	5,802,497	367,375,951
Other	<u>854,300</u>	<u>1,011,440</u>	<u>27,348</u>	<u>1,838,392</u>
	<u>440,328,033</u>	<u>166,776,119</u>	<u>6,095,797</u>	<u>601,008,355</u>
Assets being depreciated:				
Buildings	169,865,698	4,964,674	-	174,830,372
Infrastructure	81,959,054	-	4,751,793	77,207,261
Improvements other than buildings	328,503,444	748,918	-	329,252,362
Equipment	<u>163,110,449</u>	<u>19,612,703</u>	<u>60,552,456</u>	<u>122,170,696</u>
	<u>743,438,645</u>	<u>25,326,295</u>	<u>65,304,249</u>	<u>703,460,691</u>
Less accumulated depreciation:				
Buildings	36,704,818	4,366,076	-	41,070,894
Infrastructure	4,390,904	2,573,575	-	6,964,479
Improvements other than buildings	172,216,570	10,746,751	-	182,963,321
Equipment	<u>127,457,049</u>	<u>12,220,745</u>	<u>19,914,684</u>	<u>119,763,110</u>
	<u>340,769,341</u>	<u>29,907,147</u>	<u>19,914,684</u>	<u>350,761,804</u>
Capital assets being depreciated, net	<u>402,669,304</u>	<u>(4,580,852)</u>	<u>45,389,565</u>	<u>352,698,887</u>
Total capital assets, net	<u>\$ 842,997,337</u>	<u>\$ 162,195,267</u>	<u>\$ 51,485,362</u>	<u>\$ 953,707,242</u>

*Includes Internal Service Funds

In fiscal year 2004, \$4.7 million of costs associated with museum development was incorrectly placed in the infrastructure category. This error was corrected in fiscal year 2005 by placing the costs in the building category. In fiscal year 2005, land was acquired for open space costing \$10.2 million, \$5.2 million was spent on law enforcement vehicles, and \$3.7 million was spent on fire trucks.

The construction work in progress consists of expenditures made in connection with the Capital Acquisition, Infrastructure Tax, and Quality of Life Funds. The construction work in progress increased by \$143.8 million primarily due to street, storm, and park development.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 8 CAPITAL ASSETS, continued

B. Business-type activities

	<u>Balance</u> <u>July 1*</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30</u>
Assets not being depreciated:				
Land	\$ 50,834,081	\$ 1,032,815	\$ -	\$ 51,866,896
Land and improvements acquired from the U.S. Air Force	7,638,439	-	8,362	7,630,077
Other	748,000	-	-	748,000
Construction work in progress	<u>41,780,314</u>	<u>25,590,008</u>	<u>38,830,065</u>	<u>28,540,257</u>
Total assets, not being depreciated	<u>101,000,834</u>	<u>26,622,823</u>	<u>38,838,427</u>	<u>88,785,230</u>
Assets being depreciated:				
Buildings and improvements	336,831,431	36,364,628	2,027,934	371,168,125
Runways and improvements	242,374,624	4,136,422	-	246,511,046
Improvements other than buildings and runways	101,129,123	11,619,681	-	112,748,804
Equipment	<u>129,068,222</u>	<u>17,863,140</u>	<u>5,674,870</u>	<u>141,256,492</u>
Total assets, being depreciated	<u>809,403,400</u>	<u>69,983,871</u>	<u>7,702,804</u>	<u>871,684,467</u>
Less accumulated depreciation:				
Buildings and improvements	145,681,212	10,923,961	30,114	156,575,059
Runways and improvements	138,620,561	10,748,432	-	149,368,993
Improvements other than buildings and runways	66,075,575	5,912,580	1,049,170	70,938,985
Equipment	<u>92,555,612</u>	<u>9,811,688</u>	<u>4,832,963</u>	<u>97,534,337</u>
Total accumulated depreciation	<u>442,932,960</u>	<u>37,396,661</u>	<u>5,912,247</u>	<u>474,417,374</u>
Capital assets being depreciated, net	<u>366,470,440</u>	<u>32,587,210</u>	<u>1,790,557</u>	<u>397,267,093</u>
Total capital assets, net	<u>\$ 467,471,274</u>	<u>\$ 59,210,033</u>	<u>\$ 40,628,984</u>	<u>\$ 486,052,323</u>

The additions to equipment were for Refuse Disposal Fund purchases of heavy equipment (\$5.8 million) and new Transit Fund buses (\$8.2 million). The increase in additions for buildings and improvements were a for the Westside Transit Facility (\$20.9 million), the Uptown Transit Facility (\$1.0 million), and Housing (\$3.1 million). The additions to runways and improvements were for the Aviation Fund (\$4.1 million). The additions to improvements other than buildings and runways were for the Aviation Fund (\$10.7 million).

The construction work in progress decreased by \$13.2 million. The construction work in progress consists of expenditures made in connection with the Airport Fund, Golf Fund, Refuse Disposal Fund, Transit Fund, and Housing Authority Fund. The major amounts are for improvements to the Sunport and Transit Fund's new West Side Facility.

*In addition, as explained in the restatement Note 22, accumulated depreciation was reduced by \$7.6 million in the Aviation Fund and by \$1.7 million in the Transit Fund.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 8 CAPITAL ASSETS, continued

C. Depreciation expense

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

Governmental activities:

General government	\$ 1,991,038
Public Safety:	
Corrections	217,561
Fire protection	1,863,897
Police protection	7,207,696
Culture and recreation	12,688,715
Public works	1,469,833
Highways and streets	2,351,099
Health	612,988
Human services	1,205,030
Municipal development	188,797
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis based on their usage of the assets	110,493
Total depreciation expense - governmental activities	\$ 29,907,147

Business-type activities:

Major funds:	
Airport	\$ 21,897,459
Refuse disposal	6,032,365
Transit	4,621,291
Nonmajor funds:	4,845,546
Total depreciation expense - business-type activities	\$ 37,396,661

D. Capitalized interest

Changes to the capital assets for the business-type activities for 2005 include the following amounts of capitalized interest:

	Total Interest	Interest Related to Tax-Exempt Borrowing	Net
Interest expense	\$ 15,691,895	\$ 4,602,576	\$ 11,089,319
Interest income	4,099,529	2,401,988	1,697,541
Capitalized interest		\$ 2,200,588	

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 9 RESTRICTED ASSETS

Restricted assets arise principally from legal restrictions on expenditures of proceeds from general obligations bonds or sales tax revenue bonds in the governmental activities or on expenditures of proceeds from revenue bonds of the enterprise funds. The amount of restricted assets reported in the statement of net assets at June 30, 2005 is as follows:

A. Governmental Activities

Capital Acquisitions Fund \$ 95,374,426

B. Business-type activities

Airport Fund	\$ 107,596,244
Refuse Disposal Fund	11,380,245
Transit Fund	7,316,333
Nonmajor Enterprise Funds	<u>11,577,773</u>
Totals	<u>\$ 137,870,595</u>

NOTE 10 LONG-TERM OBLIGATIONS

A. Governmental activities

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

The changes in the long-term obligations of the governmental activities for the year ended June 30, 2005, are as follows:

	Outstanding				Payable in one year
	July 1	Increases	Decreases	June 30	
General Obligation Bonds	\$ 262,605,000	\$ 122,175,917	\$ 88,220,000	\$ 296,560,917	\$ 57,355,917
Sales Tax Revenue Bonds	152,735,000	60,880,000	72,360,000	141,255,000	3,190,000
Sales Tax Revenue Notes	437,800	5,700,000	140,684	5,997,116	605,817
Special Assessment Bonds and Notes					
With Governmental Commitment	16,680,492	-	4,024,549	12,655,943	771,762
Accrued vacation and sick leave pay	24,049,522	28,088,318	24,413,633	27,724,207	18,807,004
Accrued claims payable	47,578,248	23,682,795	20,882,279	50,378,764	17,503,500
Less deferred amounts:					
Deferred refunding costs	-	(5,447,361)	(143,577)	(5,303,784)	-
Unamortized bond discounts	(14,453,537)	-	(12,487,951)	(1,965,586)	-
Unamortized bond premiums	<u>5,181,398</u>	<u>5,741,192</u>	<u>1,362,063</u>	<u>9,560,527</u>	-
	494,813,923	240,820,861	198,771,680	536,863,104	98,234,000
Current portion of long-term obligations	<u>(127,897,738)</u>	<u>-</u>	<u>(29,663,738)</u>	<u>(98,234,000)</u>	<u>-</u>
Total	<u>\$ 366,916,185</u>	<u>\$ 240,820,861</u>	<u>\$ 169,107,942</u>	<u>\$ 438,629,104</u>	<u>\$ 98,234,000</u>

General Obligation bonds are direct obligations of the City for which its full faith and credit are pledged and are payable from taxes levied on property located within the City. The sick leave and vacation pay obligations are being liquidated primarily by the following funds: General, Air Quality, City/County Facilities, Gas Tax Road, Plaza Del Sol Building, and Acquisition and Management of Open Space Expenditures. Limited amounts are being liquidated by other funds. The City's Risk Management Fund (an internal service fund) liquidates all claims payable.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 10 LONG-TERM OBLIGATIONS, continued

A. Governmental activities, continued

General obligation bonds outstanding at June 30, 2005, are as follows:

<u>Issue</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Call Provisions</u>
February 1, 1996 Storm Sewer	\$ 2,500,000	5.00/5.50%	July 1, 2005	Not callable
January 1, 1997 General Purpose	1,700,000	5.00%	July 1, 2005	Not callable
January 1, 1997 Storm Sewer	6,700,000	5.00%	July 1, 2006	Not callable
February 1, 1998 General Purpose	4,200,000	5.00%	July 1, 2005	Not callable
February 1, 1998 Storm Sewer	6,350,000	5.00%	July 1, 2007	100% beginning July 1, 2005
February 1, 1999 General Purpose	4,000,000	3.85/3.95%	July 1, 2006	Not callable
February 1, 1999 Storm Sewer	4,760,000	4.00/4.05%	July 1, 2008	100% beginning July 1, 2006
August 1, 1999 General Purpose	10,000,000	4.50/4.75	July 1, 2009	100% beginning July 1, 2007
July 1, 2000 General Purpose	450,000	5.00%	July 1, 2005	Not callable
July 1, 2000 Storm Sewer	6,750,000	5.00%	July 1, 2010	100% beginning July 1, 2008
September 1, 2001 General Purpose	25,670,000	4.00/5.00%	July 1, 2010	100% beginning July 1, 2009
September 1, 2001 Storm Sewer	4,510,000	4.375%	July 1, 2011	100% beginning July 1, 2009
December 1, 2001 Taxable Baseball Stadium	6,000,000	4.00/5.60%	July 1, 2010	Not callable
February 1, 2002 General Purpose	13,400,000	2.50/5.00%	July 1, 2009	Not callable
February 1, 2002 Storm Sewer	5,600,000	4.50%	July 1, 2011	100% beginning July 1, 2010
July 1, 2004 General Purpose	56,555,000	2.50/5.00%	July 1, 2012	100% beginning July 1, 2011
July 1, 2004 Storm Sewer	9,440,000	3.00/4.50%	July 1, 2013	100% beginning July 1, 2011
June 24, 2004 General Purpose Taxable	5,800,000	2.50%	July 1, 2005	Not callable
June 30, 2005 General Purpose	90,595,000	4.00/5.00%	July 1, 2013	Not callable
June 30, 2005 Storm Sewer	11,575,000	4.00/4.25%	July 1, 2014	100% beginning July 1, 2013
June 30, 2005 General Purpose	<u>20,005,917</u>	2.93%	July 1, 2005	Not callable
	<u>\$ 296,560,917</u>			

The Constitution of the State of New Mexico limits the amount of general-purpose general obligation bonds that may be issued by a municipality to four percent of the taxable valuation of property located within the City. At June 30, 2005, based on the most recent assessed taxable valuation of \$8,289,292,625, the City may issue an additional \$63,195,083 of general-purpose general obligation bonds. Included in the general obligation bonds outstanding at June 30, 2005, are Storm Sewer bonds in the amount of \$58,185,000 that are not subject to the legal debt limit.

On June 30, 2005, the City issued \$102,170,000 of General Obligation Bonds, Series 2005A and B with an average interest rate of 4.38%. The proceeds of these bonds were deposited into the Capital Acquisition Fund and will be used for various construction projects for police, fire, parks, cultural services, facilities and equipment, libraries, public transit, storm sewers, and streets. The bonds require annual principal and semi-annual interest payments through July 1, 2014.

Also, on June 1, 2005 the City issued \$20,005,917 Short Term General Obligation Bonds, Series C. The Series 2005C Bonds bear interest at the daily rate on the date of issuance applicable to the Local Government Investment Pool administered by the State Treasurer of New Mexico. The interest rate in effect was 2.93%. The proceeds of these bonds were used for various construction projects for police, fire, parks, cultural services, facilities and equipment, libraries, public transit, storm sewers, and streets. The bonds matured on July 1, 2005.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 10 LONG-TERM OBLIGATIONS, continued

A. Governmental activities, continued

Sales Tax Revenue Bonds and Notes of the City are secured by a pledge of gross receipts tax (sales tax) revenues. In addition, the 1996 Refunding issue is secured by limited amounts of parking and airport revenues.

Sales tax revenue bonds and notes outstanding at June 30, 2005, are as follows:

<u>Issue</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Call Provisions</u>
November 18, 1991 B				
Refunding and Improvement	\$ 3,970,000	6.60/7.10%	July 1, 2019	103% beginning July 1, 2011
May 1, 1992 Refunding	3,740,000	6.00/6.30%	July 1, 2007	102% beginning July 1, 2002
March 7, 1995	1,300,000	adjustable weekly	July 1, 2023	100% beginning March 7, 1995
October 15, 1996 Refunding	3,690,000	5.00%	July 1, 2011	100% beginning July 1, 2007
January 15, 1999 A Refunding	4,810,000	3.75/5.00%	July 1, 2015	100% beginning July 1, 2009
January 15, 1999 B Refunding	12,235,000	4.60/5.00%	July 1, 2025	100% beginning July 1, 2009
March 15, 1999 C Refunding	27,130,000	4.75/5.25%	July 1, 2022	100% beginning July 1, 2009
January 20, 2000 A	23,500,000	adjustable weekly	July 1, 2014	100% beginning January 20, 2000
October 6, 2004 A Refunding	31,965,000	4.75%	July 1, 2037	100% beginning July 1, 2014
October 6, 2004 B Refunding	28,915,000	2.39/4.90%	July 1, 2014	100% beginning October 6, 2004
April 27, 2001, Note	297,116	3.02/3.62%	July 1, 2006	None
September 9, 2004, Note	5,700,000	1.26/3.67%	July 1, 2014	None
	<u>\$ 147,252,116</u>			

On October 6, 2004, the City issued \$60,880,000 of Gross Receipts Tax/Lodgers' Tax Refunding Revenue Bonds, Series 2004A and B, with an average coupon rate of 3.88%. The Series 2004 Bonds are being issued for the purpose of restructuring the debt service on the City's bonds and obligations payable from pledged lodgers' tax revenues and gross receipts tax revenues so that the amount of debt service on such bonds paid by the City using state-shared gross receipts tax revenues is substantially reduced or eliminated.

Tax-Exempt Series 2004A - \$31,965,000

The net proceeds of \$31,643,964 (exclusive of \$587,293 of underwriters' fees and other issuance costs and \$267,085 of original issue premium) plus an additional \$383,909 were used to purchase state and local government securities. These securities were deposited into an irrevocable trust with an escrow agent to provide for the advance refunding of certain Series 1999B Bonds maturing on July 1, 2012 through July 1, 2025. The total amount of Series 1999B Bonds to be partially redeemed with the Series 2004A Bonds is \$30,945,000. As a result, that portion of the Series 1999B Bonds described above are considered to be defeased and the liability for those bonds has been removed from the General Long Term Debt Account Group. The advance refunding was undertaken to provide fiscal relief to the General Fund.

Taxable Series 2004B - \$28,915,000

The net proceeds of \$28,400,768 (exclusive of \$377,483 of underwriters' fees and other issuance costs) plus an additional \$594,563 were used to purchase state and local government securities. These securities were deposited into an irrevocable trust with an escrow agent to provide for the advance partial refunding of certain Bonds: Series 1999B Bonds maturing on July 1, 2012 through July 1, 2025 in the total amount of \$2,155,000; Series 1996 Bonds maturing on July 1, 2005 through July 1, 2011 in the total amount of \$5,510,000; and Series 1991B Capital Appreciation Bonds maturing July 1, 2005 through July 1, 2019 with an accreted value of \$17,361,298. As a result, those portions of the bonds described above are considered to be defeased and the liability for those bonds has been removed from the General Long Term Debt Account Group. The advance refunding was undertaken to provide fiscal relief to the General Fund.

The advance refunding on the Series 2004A and B Bonds was undertaken to defer the payment of principal to future years resulting in a net increase to debt service payments over the next 33 years by \$46,170,665 and resulting in an economic loss (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$4,599,947.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 10 LONG-TERM OBLIGATIONS, continued

A. Governmental activities, continued

On September 9, 2004, the City executed a loan agreement with the New Mexico Finance Authority for \$5,700,000, with an average interest rate of 2.75%. The proceeds of the loan will consist of equipping and furnishing the Albuquerque Convention Center. The loan is secured by pledges of revenues from hospitality taxes only. Final payment is due July 1, 2014. The balance due at June 30, 2005 was \$5,700,000.

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

Special Assessment debt and notes in the amount of \$12,655,943 are outstanding at June 30, 2005. Interest rates range from .94% to 7.10%, and maturities extend through January 1, 2015.

B. Business-type activities

The changes in the Business-type activities obligations for the year ended June 30, 2005, are as follows:

	<u>Outstanding</u>				<u>Payable in one year</u>
	<u>July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30</u>	
Revenue bonds	\$ 280,630,000	\$ -	\$ 11,015,000	\$ 269,615,000	\$ 12,945,000
Loans and notes payable	15,000,000	5,800,000	379,920	20,420,080	919,383
Accrued vacation and sick leave pay	4,708,590	3,817,540	3,453,006	5,073,124	3,561,040
Less deferred amounts:					
Deferred refunding costs	(5,872,303)	55,346	(878,605)	(4,938,352)	-
Unamortized bond premiums	1,702,153	13,535	289,160	1,426,528	-
Unamortized bond discounts	(266,090)	-	(23,597)	(242,493)	-
	<u>295,902,350</u>	<u>9,686,421</u>	<u>14,234,884</u>	<u>291,353,887</u>	<u>17,425,423</u>
Capitalized leases	-	944,458	25,274	919,184	78,075
Subtotal	295,902,350	10,630,879	14,260,158	292,273,071	17,503,498
Current portion	<u>(14,223,375)</u>	<u>-</u>	<u>3,280,123</u>	<u>(17,503,498)</u>	<u>-</u>
Business-type activity long-term obligations	<u>\$ 281,678,975</u>	<u>\$ 10,630,879</u>	<u>\$ 17,540,281</u>	<u>\$ 274,769,573</u>	<u>\$ 17,503,498</u>

The sick leave and vacation pay obligations are being liquidated primarily by the following funds: Airport, Refuse Disposal, Housing Authority, Golf Course, Transit, and Parking Facilities.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 10 LONG-TERM OBLIGATIONS, continued

B. Business-type activities, continued

Airport Revenue Bonds are secured by pledges of net revenues of the airport.

Airport Revenue bonds outstanding at June 30, 2005, are as follows:

Issue	Amount	Rate	Maturity	Call Provisions
May 3, 1995 Refunding	47,400,000	a *	July 1, 2014	100% on any interest payment date
April 3, 1997 Refunding	27,065,000	6.25/6.75%	July 1, 2018	102% beginning July 1, 2007
September 1, 1998 Refunding	37,440,000	3.80/5.00%	July 1, 2019	100% beginning July 1, 2008
May 4, 2000 A	5,500,000	a	July 1, 2020	100% on any interest payment date
May 4, 2000 B	18,700,000	a	July 1, 2020	100% on any interest payment date
August 1, 2001	39,315,000	3.20/4.75%	July 1, 2016	100% beginning July 1, 2012
March 23, 2004 A	20,610,000	1.63/5.11%	July 1, 2018	100% beginning July 1, 2005
March 23, 2004 B	<u>30,000,000</u>	2.0/4.5%	July 1, 2024	100% beginning July 1, 2007
Total outstanding	226,030,000			
Unamortized premiums	1,002,610			
Deferred refunding costs	<u>(4,811,624)</u>			
Net outstanding	<u>\$ 222,220,986</u>			

* Concurrently, with the issuance of these bonds, the City entered into an interest rate exchange agreement in order to effectively fix the City's interest obligation on the Series 1995 bonds. In that agreement, the City is obligated to pay interest at the fixed interest rate of 6.685% per annum.

The Apartments Revenue Bonds are secured by pledges of net revenues of the apartments.

On July 20, 2000, the City, pursuant to a mortgage and indenture of trust, issued its Affordable Housing Projects Refunding Revenue Bonds Series 2000 (Series 2000) in the aggregate principal amount of \$15,080,000 for the purpose of refunding and defeasing three bond issues of the City; 1) its Multifamily Mortgage Revenue Bonds (Beach Apartments Project), Series 1991, 2) its Multifamily Mortgage Revenue Bonds (Manzano Vista, formerly Dorado Village Apartments Project), Series 1994, and 3) its Affordable Housing Project/Gross Receipts Tax Subordinate Lien Revenue Bonds, Series 1996. The Series 2000 bonds consist of debt issued by three City owned trusts; Beach, Bluewater Village and Manzano Vista Apartments. The debt constitutes a limited obligation of the City and is payable solely from the resources of these trusts. The respective facilities and the revenues derived from these facilities are pledged for the repayment of the bonds. The mortgage and indenture of trust contain significant requirements for annual debt service and use of project revenues and resources. Required funds include escrow and expense funds, a debt service fund, use of project reserve funds (debt service, retained earnings coverage and sinking fund installment accounts) and restricted property reserve funds (rehabilitation, renovation, repair and replacement accounts).

The Series 2000 bonds mature in staggered amounts beginning July 1, 2001 with final payment due July 1, 2030 and bear a variable interest rate based upon similar tax free obligations (BMA index). At the option of the City, interest is paid on market rates for either daily, weekly, short term, during the year ended, or long-term interest rate periods. Based on interest rate periods, interest is paid no less than monthly or in the case of Long-term periods paid semi annually each July and January. At June 30, 2005 and 2004 interest was being paid monthly. The average interest rate on the Series 2000 bonds for the years ended June 30, 2005 and 2004 was 1.75% and .99% respectively. The weekly interest rate at June 30, 2005 and 2004 was .97% and 1.06% respectively.

The City has executed a standby bond purchase agreement, which expires July 20, 2005, with Bank of America to provide a liquid facility for the potential repurchase of bonds at the option of the bond owner (at par) as allowed under the terms of the mortgage and indenture of trust. The City has contracted with a remarketing agent to resell bonds purchased pursuant to the standby bond purchase agreement.

The Series 2000 bonds are subject to optional and mandatory redemptions generally at par, unless Long-term rates are in effect, as required by the mortgage and indenture of trust commencing July 1, 2001. The Apartments debt in the amount of \$13,880,000 is outstanding at June 30, 2005 and maturities extend through July 1, 2030.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 10 LONG-TERM OBLIGATIONS, continued

B. Business-type activities, continued

Golf Course Revenue Bonds are secured by a pledge of net golf course revenues and a pledge of revenues received by the City from gross receipts tax revenues.

Golf Course Revenue bonds outstanding at June 30, 2005 are as follows:

<u>Issue</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Call Provisions</u>
February 1, 2001	\$ 1,885,000	5.70/6.70%	July 1, 2011	100% beginning July 1, 2007
Unamortized discounts	<u>(3,288)</u>			
Net outstanding	<u>\$ 1,881,712</u>			

Refuse Disposal Revenue Bonds are secured by a pledge of net revenues from refuse disposal operations.

Refuse Disposal Revenue Bonds outstanding at June 30, 2005, are as follows:

<u>Issue</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Call Provisions</u>
September 1, 1992	\$ 555,000	5.50/5.60%	July 1, 2005	102% beginning July 1, 2002
July 1, 1995	7,635,000	4.90/5.30%	July 1, 2009	Not callable
February 1, 1998	6,875,000	4.20/5.00%	July 1, 2013	100% beginning July 1, 2007
May 1, 2001A	2,030,000	4.00/4.10%	July 1, 2008	Not callable
May 1, 2001B	<u>10,725,000</u>	3.63/5.25%	July 1, 2012	Not callable
Total outstanding	27,820,000			
Unamortized premiums	184,716			
Deferred refunding costs	<u>(126,731)</u>			
Net outstanding	<u>\$ 27,877,985</u>			

Refuse Loans On July 9, 2004 the City entered into a tax-exempt loan agreement with New Mexico Finance Authority for \$5,800,000 with an average interest rate of 2.87%. Final payment is due on July 1, 2014. The balance due on June 30, 2005 was \$5,800,000.

Stadium Loans are secured by pledges of net revenues of the Albuquerque baseball stadium.

On October 4, 2002, the City entered into a Taxable Stadium Lease loan agreement with the New Mexico Finance Authority in the amount of \$6,000,000 with an average interest rate of 5.2%. Final payment is due on July 1, 2026. The balance due on June 30, 2005 was \$5,859,786.

On December 27, 2002, the City entered into a Taxable Surcharge loan agreement with the New Mexico Finance Authority in the amount of \$9,000,000 with an average interest rate of 4.2%. Final payment is due on July 1, 2026. The balance due on June 30, 2005 was \$8,760,294.

Both loans were used to finance reconstruction of the existing baseball stadium.

Housing Authority Debt The U.S. Housing and Urban Development Department (HUD) guaranteed third party debt consisting of new Housing Authority (HA) revenue bonds and permanent notes, payable to the Federal Financing Bank, were issued to provide for the development and modernization of low rent housing units. These bonds and notes are payable by HUD and secured by annual contributions to the HA. HUD regulations state that the bonds and notes do not constitute a debt of the HA and, accordingly, these have not been reported in the accompanying financial statements. At June 30, 2005, the outstanding balance of the revenue bonds was \$895,000 with annual payments required through 2013 and the outstanding balance of the permanent notes was \$7,461,564 with annual payments required through 2017.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 10 LONG-TERM OBLIGATIONS, continued

B. Business-type activities, continued

Housing Authority Capital Lease The Housing Authority has also entered into a lease agreement as lessee for financing the acquisition of equipment and improvements. This lease agreement is treated as a capital lease for accounting purposes and, therefore, has been reported at the present value of the future minimum lease payments as of the inception date in the basic financial statements. At June 30, 2005 the outstanding balance of the capital lease is \$919,183.

The assets acquired through capital leases are as follows:

Equipment and Improvements	\$ 944,458
Less: Accumulated amortization	<u>(89,437)</u>
Total	<u>\$ 855,021</u>

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2005 are as follows:

Year Ending June 30	<u>Principal and Interest</u>
2006	\$ 116,843
2007	116,843
2008	116,842
2009	116,843
2010	116,842
2011-2015	<u>545,264</u>
Total minimum lease payments	1,129,477
Less amount representing interest	<u>(210,294)</u>
Present value of minimum lease payments	<u>\$ 919,183</u>

C. Summary of Annual Debt Service Requirements

The annual debt service requirements on the obligations outstanding at June 30, 2005 are as follows:

<u>Year ending June 30</u>	<u>Governmental activities</u>		<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 61,923,496	\$ 16,093,627	\$ 13,942,457	\$ 13,514,583
2007	44,963,061	16,536,550	16,468,804	12,774,115
2008	41,001,762	14,664,798	19,679,526	11,927,649
2009	36,969,579	13,052,438	19,284,770	11,026,633
2010	35,615,566	11,578,078	23,609,682	9,980,693
2011-2015	134,690,512	37,765,439	116,632,455	32,667,710
2016-2020	24,485,000	22,571,895	58,182,605	10,181,811
2021-2025	20,025,000	16,584,897	16,135,270	2,474,865
2026-2030	15,855,000	12,694,780	7,018,695	307,569
2031-2035	22,975,000	7,676,846	-	-
2036-2038	17,965,000	1,418,014	-	-
Total	<u>\$ 456,468,976</u>	<u>\$ 170,637,362</u>	<u>\$ 290,954,264</u>	<u>\$ 104,855,628</u>

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 10 LONG-TERM OBLIGATIONS, continued

D. Arbitrage

Section 148 of the Internal Revenue Code provides generally that bonds issued by a municipality will be "arbitrage bonds", if any portion of the proceeds of the bonds are reasonably expected to be invested in obligations with a yield that is "materially higher" than the yield on the bonds. While municipalities are entitled to earn a certain amount of positive arbitrage during the period the bonds are outstanding, Section 148(f) generally requires that these earnings be paid to the Internal Revenue Service (IRS) at least every five years. As of June 30, 2005, the City has set aside an amount of \$1,044,189 in arbitrage interest due the IRS in connection with future filings and payments to the IRS. This amount is reported as a deferred credit in the statement of net assets.

NOTE 11 DEMAND BONDS

Included in long-term debt (Notes 10A and 10B) is \$110,280,000 of various demand bonds, the proceeds of which were used to (a) provide funds for certain capital improvements, (b) establish bond reserve funds in accordance with the trust agreements, (c) establish a construction period interest account, and (d) pay costs incurred to issue the bonds. The bonds are included in the summary of annual debt service requirements in Note 10C assuming retirement in accordance with the related mandatory sinking fund redemption requirements.

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

At June 30, 2005, no amounts were drawn on the "take out" agreements, which are as follows:

Sales Tax Revenue Bonds March 7, 1995

Remarketing Agent	Citigroup
Terms of "Take-Out" Agreement:	
Purchaser	Bank of America
Method of Purchase	Direct Pay Letter of Credit
Expiration Date	November 27, 2007
Annual Fee	.45% on the stated amount of the letter of credit
Stated Amount at Time of Issuance	\$2,018,220 (Principal outstanding plus 295 days of interest at 15%)
Bonds Outstanding at 6/30/2005	\$1,300,000
Annual Debt Service Requirements	\$60,000. Final payment of \$1,300,000 due July 1, 2023

Airport Subordinate Lien Adjustable Tender Refunding Revenue Bonds May 3, 1995

Remarketing Agent	Citigroup
Terms of "Take-Out" Agreement:	
Purchaser	AIG Liquidity Corporation
Method of Purchase	Direct Pay Letter of Credit
Expiration Date	February 25, 2006
Annual Fee	.25% on the stated amount of the letter of credit
Stated Amount at Time of Issuance	\$67,963,699 (Principal outstanding plus 35 days of interest at 15%)
Bonds Outstanding at 6/30/2005	\$47,400,000
Annual Debt Service Requirements	Range of payment is from \$6,600,000 to \$7,200,000

Airport Subordinate Lien Adjustable Rate Revenue Bonds, Series 2000 A & B May 4, 2000

Remarketing Agent	Dain Rauscher, Inc.
Insured by	Ambac Assurance Inc.
Terms of "Take-Out" Agreement:	
Purchaser	JP Morgan Chase Bank, N.A.
Method of Purchase	Liquidity Facility
Expiration Date	May 3, 2010
Annual Fee	.175% on the stated amount of the liquidity facility
Stated Amount at Time of Issuance	\$47,858,193 (Principal outstanding plus 35 days of interest at 12% for 2000A and 15% for Series 2000B)
Bonds Outstanding at 6/30/2005	\$24,200,000
Annual Debt Service Requirements	Range of payment is from \$560,000 to \$5,200,000

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 11 DEMAND BONDS, continued

Variable Rate Taxable Gross Receipts Tax Improvement Bonds, Series 2000A, January 20, 2000

Remarketing Agent	Dain Rauscher, Inc.
Insured by	MBIA Insurance Corporation
Terms of "Take-Out" Agreement:	
Purchaser	Bank of America, N.A.
Method of Purchase	Liquidity Facility
Expiration Date	January 20, 2014
Annual Fee	.14% on the stated amount of the liquidity facility
Stated Amount at Time of Issuance	\$27,733,333 (Principal outstanding plus 200 days of interest at 15%)
Bonds Outstanding at 6/30/2005	\$23,500,000
Annual Debt Service Requirements*	Range of payment is from \$2,800,000 to \$4,600,000

Affordable Housing Projects Refunding Revenue Bonds, Series 2000, July 1, 2000

Remarketing Agent	Newman & Associates, Inc.
Insured by	MBIA Insurance Corporation
Terms of "Take-Out" Agreement:	
Purchaser	Bank of America, N.A.
Method of Purchase	Liquidity Facility
Expiration Date	July 20, 2010
Annual Fee	.125% on the stated amount of the liquidity facility
Stated Amount at Time of Issuance	\$16,085,333 (Principal outstanding plus 200 days of interest at 12%)
Bonds Outstanding at 6/30/2005	\$13,880,000
Annual Debt Service Requirements*	Range of payment is from \$349,500 to \$1,021,000

* Based on interest rate in effect on June 30, 2005.

NOTE 12 REFUNDED BONDS

The City has refunded various bond issues by issuing refunding bonds, the proceeds of which have been placed in escrow and used to purchase securities of the United States Government and related agencies at various interest rates and maturities sufficient to meet all debt service requirements of the refunded debt. These assets are administered by trustees and are restricted to use for retirement of the refunded debt. The liability for the refunded bonds and the related securities and escrow accounts are not included in the accompanying general purpose financial statements as the City satisfied its obligation for payment of the refunded debt upon completion of the refunding transactions. Refunded debt outstanding at June 30, 2005, is as follows:

Sales Tax Revenue Bonds	<u>\$61,751,438</u>
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NOTE 13 CONDUIT BONDS

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

Industrial Revenue Bonds

As of June 30, 2005, there were sixty-nine series of Industrial Revenue Bonds outstanding. The aggregate principal amount payable for the thirty-six series issued after July 1, 1995, is \$688.7 million. The aggregate principal amount payable for the thirty-three series issued prior to July 1, 1995, could not be determined; however, the original amount issued totaled \$591.3 million.

Metropolitan Redevelopment Bonds

As of June 30, 2005, there were ten series of Metropolitan Redevelopment Bonds outstanding. The aggregate principal amount payable for the four series issued after July 1, 1995 is \$18.9 million. The aggregate principal amount for the six series issued prior to July 1, 1995, could not be determined; however, the original amount issued totaled \$24.9 million.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 14 DEFICIT FUND EQUITIES

Capital Projects Funds

While the total unreserved fund balance is not in a deficit position, deficit unreserved fund balances for certain purposes result because capital expenditures and encumbrances are made in anticipation of additional revenues and transfers. The resulting deficit fund balance of various purposes at June 30, 2005 is as follows:

Capital Acquisition Fund	
Community Services Building	<u>\$ 25,651</u>
Quality of Life Fund	
Quarter Cent Streets	\$ 52,222
Quarter Cent Storm Drain	111
Rio Grande Bosque RR	<u>260</u>
	<u>\$ 52,593</u>
Transportation Infrastructure Tax Fund	
Maintenance	\$ 14,341,228
Transit	<u>535,887</u>
	<u>\$ 14,877,115</u>
Community Development Fund	
Urban Development	<u>\$ 12,496</u>
Albuquerque Biological Park Projects	
Program movement	<u>\$ 89,226</u>

Internal Service Funds

The deficit fund net assets of the Risk Management Fund decreased to \$8,689,788 at June 30, 2005 from the \$12,585,384 deficit fund net assets at June 30, 2004. The City has implemented a five-year recovery plan that began in fiscal year ended June 30, 2003 that will reduce the deficit net assets by increasing charges to other funds.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 15 INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, were as follows:

From	To		
General Fund	Capital Acquisition Fund		3,795,000
General Fund	Transit Fund		16,365,000
General Fund	Nonmajor Proprietary Funds		2,300,000
General Fund	Nonmajor Governmental Funds		32,860,250
Capital Acquisition Fund	Transit Fund		1,558,557
Refuse Disposal Fund	General Fund		1,252,055
Transit Fund	General Fund		215,184
Nonmajor Governmental Funds	Capital Acquisition Fund		5,800,194
Nonmajor Governmental Funds	Transit Fund		7,407,980
Nonmajor Governmental Funds	General Fund		505,000
Nonmajor Governmental Funds	Nonmajor Governmental Funds		9,160,874
Nonmajor Proprietary Funds	General Fund		230,698
Internal Service Funds	General Fund		269,000
Total transfers			<u>\$ 81,719,792</u>
		<u>Transfers In</u>	<u>Transfers Out</u>
Exhibit A-4, "Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Funds"		\$ 54,088,255	\$ 79,752,855
Exhibit A-7, "Statement of Revenues, Expenses, and Changes in Net Assets - All Proprietary Funds"			
Enterprise funds		27,631,537	1,697,937
Internal Service funds		-	269,000
Total transfers		<u>\$ 81,719,792</u>	<u>\$ 81,719,792</u>

The transfers from the General Fund to the other funds are for the purpose of: 1) providing a subsidy for the operations of the Transit and Parking Facilities funds, 2) funding the City's share of the cost of operations of the Corrections and Detention Fund with Bernalillo County, 3) providing the City's local match for operating grants from federal and state agencies, 4) funding the purchase of police and fire vehicles, and various construction projects, and 5) transferring resources to debt service funds for the retirement of General Obligations and Sales Tax Refunding bonds.

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

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

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 16 SEGMENT INFORMATION

Significant financial data for identifiable activities of major enterprise funds are reported in the statements for proprietary funds in the basic financial statements section. Significant financial data for identifiable activities of nonmajor enterprise funds as of and for the year ended June 30, 2005, (in thousands of dollars) is as follows:

	Golf Course Fund	Apart- ments Fund	Housing Authority Fund	Parking Facilities Fund	Stadium Fund	Total
CONDENSED STATEMENT OF NET ASSETS						
Assets:						
Current assets	\$ 450	\$ 688	\$ 12,104	\$ 1,417	\$ 1,630	\$ 16,289
Restricted assets	502	2,739	535	7,780	21	11,577
Capital assets	7,040	14,635	19,047	26,280	21,114	88,116
Other assets	39	337	-	219	170	765
Total assets	8,031	18,399	31,686	35,696	22,935	116,747
Liabilities:						
Current liabilities	754	288	1,526	228	806	3,602
Liabilities payable from restricted assets	-	96	133	-	-	229
Bonds and other long-term liabilities	1,765	13,680	841	4	14,230	30,520
Advance from other funds	-	-	-	22,200	-	22,200
Total liabilities	2,519	14,064	2,500	22,432	15,036	56,551
Net assets:						
Invested in capital assets, net of related debt	5,617	1,292	21,104	9,683	6,953	44,649
Net assets restricted for:						
Debt service	37	-	-	1,140	21	1,198
Construction	9	-	-	1,256	-	1,265
Unrestricted net assets (deficit)	(152)	3,043	8,081	1,185	925	13,082
Total net assets	\$ 5,511	\$ 4,335	\$ 29,185	\$ 13,264	\$ 7,899	\$ 60,194
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS						
Operating revenues	\$ 3,824	\$ 2,832	\$ 1,707	\$ 3,681	\$ 1,726	\$ 13,770
Depreciation	(289)	(640)	(1,607)	(1,260)	(1,050)	(4,846)
Other operating expenses	(3,501)	(2,104)	(6,326)	(3,225)	(575)	(15,731)
Operating income (loss)	34	88	(6,226)	(804)	101	(6,807)
Nonoperating revenues (expenses):						
Investment earnings	45	35	223	141	24	468
Interest and other debt related expenses	(105)	(334)	-	(684)	(817)	(1,940)
Federal housing grants	-	-	24,751	-	-	24,751
Housing assistance payments	-	-	(19,364)	-	-	(19,364)
Other	79	225	214	(42)	7	483
Capital contributions	10	-	-	103	251	364
Transfers in	-	-	-	2,300	-	2,300
Transfers out	(63)	-	-	(168)	-	(231)
Change in net assets	-	14	(402)	846	(434)	24
Beginning net assets	5,511	4,322	29,588	12,417	8,333	60,171
Ending net assets	\$ 5,511	\$ 4,336	\$ 29,186	\$ 13,263	\$ 7,899	\$ 60,195
CONDENSED STATEMENT OF CASH FLOWS						
Net cash provided (used) by:						
Operating activities	\$ 407	\$ 966	\$ (4,282)	\$ 414	\$ 1,224	\$ (1,271)
Noncapital financing activities	(63)	-	3,814	185	-	3,936
Capital and related financing activities	(1,805)	(237)	924	(8)	(1,156)	(2,282)
Investing activities	45	35	223	141	24	468
Net increase (decrease)	(1,416)	764	679	732	92	851
Beginning cash and cash equivalents	2,368	2,612	11,230	4,782	1,320	22,312
Ending cash and cash equivalents	\$ 952	\$ 3,376	\$ 11,909	\$ 5,514	\$ 1,412	\$ 23,163

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 16 SEGMENT INFORMATION, continued

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

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

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

Parking Facilities Fund. This fund provides parking space for the City's residents in the downtown area.

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

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

NOTE 17 DEFINED BENEFIT PENSION PLAN

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

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

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

FUNDING POLICY - 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, 2005.

<u>Group Covered</u>	<u>Employee</u>		<u>Employer</u>	
	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>
General - Management, Blue Collar and White Collar	3.29%	\$ 6,333	19.01%	\$ 28,974
General - Bus Drivers	13.15%	848	9.15%	590
General - Other	7.00%	167	7.00%	195
Police	16.30%	7,279	18.50%	8,543
Fire	16.20%	4,578	21.25%	6,006
		<u>\$ 19,205</u>		<u>\$ 44,308</u>

The total required contributions and amounts actually paid (in thousands of dollars) in prior years is as follows:

<u>Fiscal year ended June 30</u>	<u>Employee</u>	<u>Employer</u>
2004	\$16,933	\$42,065
2003	17,032	42,347

If a member's employment is terminated before the member is eligible for any other benefits under PERA, the member may receive a refund of the member's contribution and interest accrued based on rates established biannually by the retirement board.

The payroll for employees covered by PERA for the year ended June 30, 2005, was \$240,089,175; the total payroll for all employees of the City of Albuquerque was \$268,763,204.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 18 POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits described in Note 17, the City provides certain health care and life insurance benefits for retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach the normal retirement eligibility conditions while working for the City.

LIFE INSURANCE BENEFITS: Life insurance benefits authorized by the City's Merit System Ordinance and Personnel Rules and Regulations for eligible employees are reduced by 50%, not to exceed \$25,000, upon retirement. Life insurance benefits are paid through premiums to an insurance company under an indemnity plan. The insurance company has the right to adjust the premiums based on claims paid. Historically, the claims paid in any one year have not exceeded the premiums. The City recognizes the cost of providing the life insurance benefits by charging the insurance premiums to expenditures. The life insurance costs for the fiscal year ended June 30, 2005, were approximately \$188,184. The number of retired employees covered under the life insurance benefit was 3,327 at June 30, 2005, and the amount of life insurance coverage for these retired employees was \$63,750,400.

RETIREE HEALTH CARE ACT CONTRIBUTIONS: The Retiree Health Care Act (Sec 10-7C-1 to 10-7C-16, NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. 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 by 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 are institutions of higher education, school districts, or other entities participating in the public school insurance authority and state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Education Retirement Act, the Magistrate Retirement Act, or the Public Employees 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 required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement;
- (2) Retirees defined by the Act who retired prior to July 1, 1990; and former legislators who served at least two years.

Fund Contributions:

Each participating employer makes contributions to the fund in the amount of 1.3 percent of each participating employee's annual salary. Each employee contributes to the fund an employee contribution in an amount equal to 0.65 percent of the employee's salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional participation fee of five dollars (\$5.00) if the eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

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 Retiree Health Care Authority requires that the employer, employee, and retiree contributions be remitted on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report may be obtained by writing to the Retiree Health Care Authority, Albuquerque State Government Center, 401 Roma NW Suite 200, Albuquerque, NM 87102.

The City of Albuquerque remitted \$3,127,138 in employer contributions and \$1,563,569 in employee contributions in the fiscal year ended June 30, 2005.

NOTE 19 DEFERRED COMPENSATION

The City of Albuquerque offers its employees three deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all City employees, permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City does not make matching contributions to these plans. All plans comply with the provisions of the Internal Revenue Code, which provides that all assets and income of the plan shall be held in trust for the exclusive benefit of the participants and their beneficiaries.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 20 LANDFILL CLOSURE AND POSTCLOSURE CARE COST

Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post-closure care costs in the Refuse Disposal Fund (Enterprise) as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,515,176 reported as other liabilities payable from restricted assets at June 30, 2005, represents the cumulative amount reported to date based on the use of 17.3% of the estimated capacity of the Cerro Colorado and South Broadway Landfills. The City will recognize the remaining estimated cost of closure and post-closure care of \$6,820,247 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2005. The City expects to close the landfill in the year 2037. Actual cost may be higher due to inflation, change in technology, or change in regulations.

The City has set aside \$1,816,586 for future post-closure costs. This amount is reported as a restricted asset on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate, or additional post-closure care requirements are determined (due to change in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

NOTE 21 RISK MANAGEMENT

The City is exposed to various risks of loss related to: torts and civil rights claims (including law enforcement and employment related exposures); theft, damage and destruction of its real and personal assets; workers compensation losses; errors and omissions of City officers and officials; and natural disasters. The City uses the Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$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, 2005, 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.

During fiscal years 2004 and 2005, the City had actuarial reviews of the adequacy of the reserves for both the Workers Compensation and Tort Liability programs. The actuarial reviews recommended that the City increase the amounts reserved in anticipation of severe adverse developments in reported cases and for claims that may have occurred but have not yet been reported, and this recommendation was taken. Historical data contributes to the confidence that the Risk Management Fund is adequate for unanticipated developments. The cash balance grew by \$6,930,550 during this fiscal year and the City has a funding plan in place to address the remaining deficit in the Risk Management Fund. Further, if necessary, the City Council can add catastrophic losses directly to the tax rolls. In addition, the City has other cash resources in excess of the balance not addressed. The City began fiscal year 2005 with a \$15,300,000 available in the General Fund balance largely the result of unanticipated revenue and reversions from fiscal year 2004. The City has available \$1,560,000 in cash that was refunded to the City due to an unfulfilled IRB obligation and \$2,000,000 in a special reserve. Finally, the City has reserve amounts that are created by the City's policy to reserve one-twelfth of the General Fund budgeted expenditures amount.

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 21 RISK MANAGEMENT, continued

The amounts and changes in the Fund's claims liability in fiscal year 2005 and 2004 were:

	2005	2004
Claims liability at July 1	\$ 47,578,248	\$ 40,601,564
Current year claims and change in estimates	23,682,795	23,545,885
Claims liquidated	(20,882,279)	(16,569,201)
 Claims liability at June 30	 \$ 50,378,764	 \$ 47,578,248
 The components of the claims liability at June 30 are:		
Current portion	\$ 17,503,500	\$ 17,989,500
Noncurrent portion	32,875,264	29,588,748
 Total claims liability	 \$ 50,378,764	 \$ 47,578,248

Reflected in the reserves reported at year end was a major land use case which the state district court had decided adversely to the City. Substantial case reserves had been established to reflect the award of \$8.3 million plus attorney's fees, costs and interest on the judgment at the rate of 10% until paid. In December of 2005, the state court of appeals reversed the judgment completely. Unless the claimants are successful on a subsequent appeal to the New Mexico Supreme Court, the ultimate cost of this claim will be only what the City expended on its defense.

NOTE 22 RESTATEMENT OF PRIOR PERIOD FUND BALANCES OR NET ASSETS

The fund balances and net assets of various funds were restated as of June 30, 2005 for the following reasons:

1. The Transit Fund's depreciation expense was over reported by \$1,673,410. Accordingly, the capital assets and retained earning were increased by that amount.
2. The Aviation Fund's depreciation expense was over reported in fiscal year 2004. Accordingly, the capital assets and retained earnings were increased by \$7,654,046.

A summary of the effect of the restatements is as follows:

	Governmental	Business
Net assets as previously reported	\$ 845,695,863	\$ 311,654,420
Restatement for:		
1. Over reported depreciation in Transit	-	1,673,410
2. Over reported depreciation in Aviation	-	7,654,046
 Restated balances	 \$ 845,695,863	 \$ 320,981,876

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 23 ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY – COMPONENT UNIT

In 2003, the New Mexico Legislature adopted Senate Bill 887 (Laws 2003, Chapter 437, codified as Section 72-1-10, NMSA 1978) creating the Albuquerque Bernalillo County Water Utility Authority (Authority) and transferred all functions, appropriations, money, records, equipment and other real and personal property of the City's Joint Water and Sewer Fund (Fund) to the Authority. The Authority is comprised of a board of three City Councilors, three County of Bernalillo Commissioners, and the Mayor of the City.

Under the provisions of the legislation, the Water/Wastewater System transferred to the Authority on December 17, 2003, after completion of an audit as of June 30, 2003 of the Water/Wastewater System by the New Mexico Public Regulation Commission. Accordingly, as of July 1, 2003 the Authority reports all transactions of the Water/Wastewater System.

To facilitate the Water/Wastewater System transfer, the City, County of Bernalillo, and the Authority entered into a joint powers agreement governing policy matters and a memorandum of understanding governing operational matters. Both of these documents provide a framework for the Authority to operate successfully and without interruption in services provided to the community. The memorandum of understanding runs through December 31, 2006. In accordance with those documents, the City provides accounting and other services for the Authority as well as receiving water and wastewater services from the Authority.

The City and the Authority engaged in transactions that are summarized below:

The Authority paid the City for the following services:

Franchise fees	\$ 4,769,764
Administrative indirect overhead, including accounting and other central services	2,574,956
Supplies	1,761,963
Fleet Management Services	1,574,311
Telephone	220,052
Office services and parking	77,766
Total	<u>\$ 10,978,812</u>

The City paid the Authority for the following services:

Water and sewer services	<u>\$ 5,339,333</u>
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The Authority's Comprehensive Annual Financial Report as of and for the year ended June 30, 2005 is available by contacting the Authority at the following address; Fifth floor, P.O. Box 1293, Albuquerque, NM 87103.

NOTE 24 COMMITMENTS AND CONTINGENCIES

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

Government activities:

Major Funds:	
General Fund	\$ 3,964,919
Capital Acquisition Fund	60,016
Nonmajor Government Funds	3,697,526
Internal Service Funds	-
Total Government Funds	<u>\$ 7,722,461</u>

CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 24 COMMITMENTS AND CONTINGENCIES, continued

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

Business-type activities:

Major Funds:	
Aviation Fund	\$ 54,969,876
Refuse Disposal Fund	3,262,414
Transit Operating Fund	8,727,810
Nonmajor Business-type Funds	<u>1,265,183</u>
Total Business Funds	<u>\$ 68,225,283</u>

The City has various lease commitments for real property. The lease commitments are for one to three years, with most leases being for two years. About half of the leases have renewal options; the others do not. Lease expenses of \$590,756 were incurred for the year ended June 30, 2005. Lease commitments for future years are as follows:

2006	438,905
2007	362,242
2008	219,096
2009	219,096

In the normal course of business, the City is subject to certain contingent liabilities and unasserted claims. These contingencies are evaluated in light of their probability of being asserted and the 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. Except as discussed in the following paragraphs, it is the opinion of City management that the ultimate resolution of other litigation will not have a material effect on the financial position of the City.

1. The City is a defendant in a legal proceeding that does not fall under the New Mexico Tort Claims Act; this legal proceeding alleges that certain time incurred by some of the City of Albuquerque's Fire Department and Transit employees is subject to overtime compensation. The ultimate outcome of these legal proceedings cannot presently be determined. Accordingly, no provision for any additional liability that may result upon the ultimate outcome has been recognized in the accompanying general-purpose financial statements and schedules.
2. The City is a defendant in a legal proceeding arising from the City's condemnation of property east of the Four Hills Subdivision. The property taken by the City is located between Four Hills and the property owned by claimants. As part of the condemnation, the claimants allege that the City had denied them access to their property from April 1988 until February 2002. The claimants seek approximately \$2 million in damages. The claimants appealed and we await a decision from the Court of Appeals.
3. The City has received a number of Federal and State grants for specific purposes. These grants are subject to audit that may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. Based on prior experience, City management believes that such disallowances, if any, will not be material.

NOTE 25 SUBSEQUENT EVENTS

Bond election:

In a regular municipal election on October 4, 2005, the voters approved the future issuance of \$113,045,000 general purpose general obligation bonds and \$8,080,000 of storm sewer system general obligation bonds.

Risk Management Fund (see note 21):

Reflected in the reserves reported at year end was a major land use case which the state district court had decided adversely to the City. Substantial case reserves had been established to reflect the award of \$8.3 million plus attorney's fees, costs and interest on the judgment at the rate of 10% until paid. In December of 2005, the state court of appeals reversed the judgment completely. Unless the claimants are successful on a subsequent appeal to the New Mexico Supreme Court, the ultimate cost of this claim will be only what the City expended on its defense.