

November 15, 2005

Board of County Commissioners
Alan B. Armijo, Chair
E. Tim Cummins, Vice Chair
Teresa L. Cordova, Member
Deanna Archuleta-Loeser, Member
Michael Brasher, Member
One Civic Plaza, 10th Floor
Albuquerque, New Mexico 87102

Dear Commissioners:

County Management hereby submits the Comprehensive Annual Financial Report (CAFR) of the County of Bernalillo (the County), New Mexico, for fiscal year ending June 30, 2005.

New Mexico State Statute 12-6-3, NMSA 1978 Compilation requires that an annual audit of a governmental unit's accounting records and Comprehensive Annual Financial Report be performed by independent public accountants. Federal law also requires that a single audit be performed for federal grant funds in conformance with the provisions of the Single Audit Act of 1984 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." All information related to the single audit, including the schedule of expenditures of federal awards, findings and recommendations, and the independent auditors' reports on the internal control structure and compliance with applicable laws and regulations are included in the Single Audit Section.

County management assumes full responsibility for the completeness and reliability of the information contained in this report, based on comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Meyners and Company, LLC, Certified Public Accountants, has issued an unqualified (“clean”) opinion on the County’s comprehensive annual financial report for the year ended June 30, 2005. The independent auditor’s report is located at the front of the financial statements.

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

PROFILE OF THE COUNTY

Bernalillo County is located in the central region of the state and is the economic and population hub of New Mexico. Its boundaries encompass the entire City of Albuquerque. With an estimated population of 595,954 in 2005, the County ranks 90th in population of the nation’s 3,066 counties. It comprises nearly 31% of New Mexico’s population and 80% of the three county Albuquerque Metropolitan Statistical Area, (MSA); Sandoval and Valencia being the other two counties.

The County provides public safety, highways and streets, sanitation, cultural and recreational services, public improvements, building, planning and zoning, and general administrative services. The County has a Commission-Manager form of government in which most of the day-to-day administrative duties are delegated to a County Manager. All legislative power within the County is vested in a five-member Board of Commissioners, each of whom are elected for four-year terms from single member districts, with a two-term limit. The executive functions are divided; the powers are shared by the Board and five elected County officials: the Treasurer, Assessor, Clerk, Probate Judge, and Sheriff.

The County maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board. The County’s legal level of budgetary control is at the fund level, except for the Emergency Medical Services and Fire Districts funds, whose legal level of budgetary authority is at the program or district level. Appropriations within a fund may be adjusted under the authority of the County Manager or Deputy County Managers as long as the total fund appropriations remain the same. Appropriation adjustments between funds require approval of the Board and the New Mexico State Department of Finance and Administration (DFA). The Local Government Division of DFA is the agency responsible for regulating the budgetary affairs of the County. Budget adjustments that do not require DFA approval are limited to transfers of budget between departments within a fund or transfers between line items within a department within a fund. State statutes prohibit the County from making expenditures in excess of the final approved budget at the fund level. The appropriated amounts reflected in the accompanying financial statements are at the function and activity level for the general fund and by object class for all other funds.

Local Economy

Bernalillo County, with the City of Albuquerque making up 80% of its population, has emerged as a hub for commerce and industry in the Southwest. It accounts for nearly half of all economic activity in New Mexico. In the 2005 *Sperling’s BestPlaces*, the Albuquerque MSA ranked 45th

overall out of 331 metro areas in the country. The City of Albuquerque was ranked 5th by *Forbes Magazine* in its annual survey for the nation's Best Places for Business and Careers and was ranked 20th in the annual Best Performing Cities index published by the Milkin Institute, up from 39th last year.

According to the University of New Mexico's Bureau of Business and Economic Research (BBER), the economic expansion in the Albuquerque MSA slowed a bit during the second quarter of 2005. Non-farm employment growth fell to 1.8 percent, following a 2.0 percent gain in the preceding quarter. Albuquerque MSA personal income growth was estimated at 5.5 percent during the second quarter of 2005. The second quarter unemployment rate checked in at 5.5 percent, up slightly compared to a year earlier. The bulk of the new jobs came in just three sectors: construction, educational and health services and government. Construction employment stood at 2,200 higher than a year ago, an increase of 8.6 percent. Housing in the City of Albuquerque was very strong, posting a 60.9 percent gain, to 1,995 units, the highest since 1984. The change was in single-family units, which increased 30.1 percent to 1,595 units, the highest increase since 1969. The large jump is probably a result of builders rushing to obtain permits before the new Albuquerque impact fee ordinance took effect July 1. Multi-family authorizations jumped 2,757.1 percent to 400 units from 14 units a year ago. Other construction projects included the Microsystems Engineering and Sciences Applications complex, the Center for Integrative Nanotechnologies, the rebuilding of the Coors/I-40 intersection, the Commons at Uptown, the Sandia Pueblo luxury hotel and the UNM hospital expansion. The total dollar value of construction contracts awarded during the second quarter was up 62.2 percent. Residential contracts declined 0.5 percent, but non-residential contracts rose 42.6 percent and contracts for other buildings rocketed 737.6 percent.

The second-largest job increase came in educational services, health care and social assistance that exhibited a gain of 2,033 jobs, up 4.5 percent. Of the total, only 200 of the jobs were in educational services. The government sector added 1,600 jobs, up 2.1 percent. Most of the new jobs (1,167) came at the local level and the lion's share of those in education. State government employment was up a mere 0.2 percent. Employment in professional, scientific, technical services and retail trade exhibited (net) gains of between 600 and 900 jobs. Wholesale trade employment was down 1.5 percent. Manufacturing, wholesale trade, leisure and hospitality, transportation/warehousing/utilities and information sector were lower than a year ago but most of the losses were small.

Long-term financial planning

The financial condition of the County is strong. The County has made an enormous effort to incorporate comprehensive financial planning in its long-range vision. DFA requires that 3/12 of budgeted expenditures be reserved at year-end to maintain an adequate cash flow until the next significant property tax collection. The DFA reserve requirement of \$38,279,946 in the general fund represents 53% of the total general fund balance of \$72,308,683. The County has an unreserved, designated fund balance of \$26,938,653 or 37% of total general fund balance. A portion of unreserved fund balance in the general fund has been designated for unencumbered carryover in the amount of \$22,181,186 and for budget stabilization in the amount of \$4,757,470. A significant portion of the unencumbered carryover amount has been designated for the purchase of a new County-wide Enterprise Resource Planning Financial Management system in the amount of \$7 million that the County plans to implement in fiscal years 2007 and 2008. An

additional \$4.2 million in unreserved fund balance has been designated for transition cost associated with the anticipated change in the operational control of the Metropolitan Detention Center from the City of Albuquerque to the County in fiscal year 2007. Additional unreserved fund balance amounts have been designated to allow County Departments and Elected Offices to carryover fiscal year 2005 budgeted balance into fiscal year 2006 in accordance with the County's two-year budget plan.

Relevant financial policies

After researching the concept of two-year budgets, including examining other cities' and counties' experiences with the process, management decided to transition to a two-year budget. Approval provided for an appropriation for two fiscal years at once, with funding being available to departments for one year at a time. Departments were given a base budget and salary projections for each of the two years. Departments had the opportunity to evaluate their budgets prior to commencement of the second year. Any necessary changes will be presented to the Board of County Commissioners (Board) as adjustments to the base budget. The biennial budget process has encouraged a long-term view of financial planning and shifted the emphasis from the process itself to a more careful examination of resource allocation choices.

Major initiatives

On May 12, 2005, the County began working on the construction of the Metropolitan Assessment and Treatment Services (MATS). The MATS project includes three primary components: substance abuse detoxification, residential substance abuse treatment and transitional housing with ongoing treatment and case management. The design of the MATS facility includes a transitional housing facility of 48 beds that will provide clients with a safe and sober living environment with continued treatment services while they seek employment, job training and ultimately, reintegrate back into the community.

On June 22, 2004, the Board approved Gross Receipt Tax Revenue Bonds to provide funding to construct the Metropolitan Detention (MDC) Center Psychiatric Service Unit, which will provide housing and treatment for individuals with acute mental health and co-occurring disorder problems. The construction of a separate 126 bed housing component for the placement and treatment of individuals who are diagnosed with acute mental health and co-occurring disorders will give MDC the ability to meet constitutional conditions of confinement for this inmate classification type.

The 2004 Legislature appropriated \$500,000 for the design and construction of the 48,000 sq. ft. South Valley Health Center. The initial design phase has been completed that incorporates changes recommended by the users of the Clinic. County, State, University of New Mexico Hospital, and Federal funding of approximately \$9 million has been committed to this project. The facility will provide space for the New Mexico Public Health Southwest Valley Office, First Choice Health Clinic, and University of New Mexico Behavioral Health and Family Practice and will provide a full range of primary care services to low-income residents of the County.

On April 18, 2005 the Mayor of the City of Albuquerque provided written notice to the County terminating the current Metropolitan Detention Center (MDC) Joint Powers Agreement effective June 30, 2006. Pending further negotiations with the City of Albuquerque, the County is

expecting to take over operations of the MDC in fiscal year 2007. On September 13, 2005, the Board approved the notice of intent to implement the 1/8% Correctional Facility Gross Receipts Tax. The tax will become effective on July 1, 2006 and funds will be utilized for the County's operations of the MDC.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. In order to be awarded a Certificate of Achievement, the County had to publish an easily readable and efficient organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

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

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Division. We also would like to express our appreciation to all departments who assisted and contributed to the preparation of this report. The Board of County Commissioners is recognized for its stewardship in conducting the financial operations of the County in a responsible and progressive manner.

Sincerely,

Thaddeus Lucero
County Manager

Daniel J. Mayfield
Deputy County Manager For Budget and Finance

