

County of Bernalillo

State of New Mexico

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ONE CIVIC PLAZA, N.W.
ALBUQUERQUE, NM 87102
(505) 768-4000
FAX (505) 768-4329

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November 15, 2006

Board of County Commissioners

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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, 2006.

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 a comprehensive framework of internal controls that were established for this purpose. Because the cost of internal controls 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, have issued an unqualified opinion on the County's comprehensive annual financial report for the year ended June 30, 2006. 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 603,562 in 2005, the County ranks 90th in population of the nation's 3,066 counties. It comprises nearly 31 percent of New Mexico's population and 80 percent 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 the 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 percent 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 2006 Forbes List of "Best Places for Business and

Careers,” the Albuquerque MSA placed 1st out of the 200 largest metro areas in the Country. Top-ranked Albuquerque MSA has the lowest business costs in the country at 24 percent below the national average and also benefited from an educated population and rising household incomes. The Albuquerque MSA ranked 1st for the “Cost of Doing Business” category, 30th for the “Income Growth” category and 54th for the “Educational Attainment” category.

The Albuquerque MSA has been on a path of accelerating expansion, with non-agricultural employment growth continually increasing since the beginning of 2006. Non-farm employment growth reached 2.8 percent in the second quarter, up from 2.7 percent in the first quarter. Personal income growth was 6.2 percent during the second quarter of 2006. The unemployment rate was 4.2 percent, the lowest since the third quarter of 2001. The Albuquerque MSA economy added 10,400 jobs (net) between the second quarter of 2005 and the second quarter of 2006. As has been the case for the last two years, most of the new jobs appeared in only three sectors of the economy – construction, government, and educational/health care/social assistance. The construction sector added 2,500 jobs, an increase of 8.8 percent. Despite the large gain, the total dollar value of construction contracts awarded during the second quarter of 2006 decreased 13.9 percent. Residential contracts were up 12.6 percent, and non-residential buildings fell 10.9 percent, and contracts for other than buildings decreased 60.9 percent. The Government sector employment increased by 2,100 jobs in the second quarter of 2006, a gain of 2.8 percent. Local government employment was up 2.2 percent, while state government employment rose 2.9 percent. Federal government employment posted a 4.0 percent gain, reflecting the addition of hundreds of U.S. Forest Service jobs. Educational services, health care, and social assistance, the third major contributor to the employment growth, added 1,567 jobs in the second quarter, a 3.4 percent increase. The leisure and hospitality sector has been doing quite well during the last four quarters, averaging employment growth of about 2.5 percent. The manufacturing sector has rebounded and employment increased 3.7 percent in the second quarter, an increase of 833 jobs. Retail trade employment growth slowed to 1.5 percent in the second quarter, but still managed to add 677 jobs. All of the remaining economic sectors showed minimal employment gains, but no sector exhibited employment declines.

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 \$47,880,110 in the general fund represents 50% of the total general fund balance of \$97,463,296. The County has an unreserved, designated fund balance of \$40,812,441 or 41 percent 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 \$19,721,768, future capital projects in the amount of \$10,000,000, fiscal year 2007 salary adjustment in the amount of \$4,100,000, and for budget stabilization in the amount of \$6,990,673. A portion of the unencumbered carryover amount has been designated for the purchase of a new County-wide Enterprise Resource Planning Financial Management system that the County plans to implement in fiscal years 2007 and 2008. Additional unreserved fund balance amounts have been designated to allow County Departments and Elected Offices to carryover fiscal year 2006 budgeted balance into fiscal year 2007 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 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 July 1, 2006 Bernalillo County became the sole operator of the Metropolitan Detention Center (MDC). For the past thirty years, under a Joint Powers Agreement (JPA), the City of Albuquerque (City) was responsible for the daily operations of the facility and both the City and the County shared equally in the operating costs. However, the debt service payments for MDC is the sole responsibility of the County. In April of 2005, the County was notified of the City's intent to cancel the JPA. On October 11, 2005, the Board of County Commissioners adopted a 1/8% Correctional Facility Gross Receipt Tax ordinance in accordance with the Laws of 2004, Chapter 110. The tax will become effective on July 1, 2006 and funds will be utilized for the County's operations of the MDC. The total approved Fiscal Year 2007 operating budget for MDC is \$54,862,532 and includes \$2,770,802 of operating funds for the addition of the new Health Services Unit. The County continues to explore every avenue available to reduce costs and to improve operating efficiencies at the MDC and to identify alternate funding sources for the operations of the facility.

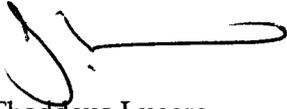
AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the second consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the County must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

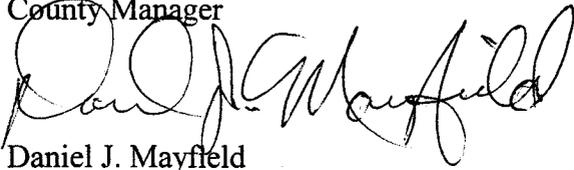
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Budget and 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