

County of Bernalillo

State of New Mexico

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November 15, 2007

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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, 2007.

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.

Moss Adams LLC, Certified Public Accountants, have issued an unqualified opinion on the County's comprehensive annual financial report for the year ended June 30, 2007. The independent auditors' 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 615,099 in 2006, the County ranks 96th in population of the nation's 3,141 counties. It comprises 31 percent of New Mexico's population and 77 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 (2006 population estimate of 504,949) making up 82 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 2007

Forbes List of "Best Places for Business and Careers," Albuquerque placed 6th out of the 200 largest metro areas in the Country. Albuquerque was ranked 34th in the "Cost of Doing Business" category, 56th in the "Job Growth" category and 82nd in the "Income Growth" category.

Economic growth in the Albuquerque MSA slowed during the first half of 2007, in line with the State of New Mexico as a whole. After non-farm growth of 3.7 percent in 2006, employment growth slowed to 2.0 percent in the first quarter and 1.7 percent in the second quarter of 2007. Personal income growth remained steady at 6.2 percent. The unemployment rate dropped from 4.2 percent a year ago to 3.5 percent in the first and second quarters of 2007. The construction sector suffered a major setback as employment growth fell from a 9.1 percent increase in 2006 to a 1.0 percent decline in the first two quarters of 2007. This decline was influenced by a severe winter and the conclusion of several large-scale construction projects including the UNM Hospital expansion, the Center of Integrated Nanotechnologies and the Microsystems Engineering and Sciences Applications (MESA) facility. New housing permits in the City of Albuquerque were down 5.9 percent with single-family permits down 27.1 percent while multi-family permits increased 143.1 percent. The total dollar value of construction contracts awarded during the second quarter of 2007 was down 2.9 percent from a year ago. Residential contracts decreased 34.5 percent while contracts for other than buildings decreased by 39.6 percent. On the upside, contracts for non-residential buildings increased by 200 percent. The Albuquerque MSA added 6,567 jobs from the second quarter of 2006 to the second quarter of 2007 lead by the leisure and hospitality sector (3.4 percent increase) educational and healthcare services sector (2.7 percent increase), professional and business services (2.1 percent), and government (1.7 percent). Each of these sectors added approximately 1,300 jobs. The information sector also made a noticeable contribution adding 633 jobs for an increase of 6.7 percent. Retail trade was the only other sector to add more than 200 jobs, posting a 1.0 percent increase with 433 jobs. Overall, employment growth came from four sectors posting strong gains with minimal growth in the other sectors and slight decreases in the natural resources, mining and construction as well as financial sectors.

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 \$62,116,232 in the general fund represents 42.3 percent of the total general fund balance of \$146,704,783. The County has an unreserved, designated fund balance of \$74,202,179 or 50.6 percent of the total general fund balance. The fund balance in the general fund has been designated for unencumbered carryover in the amount of \$39,709,114, future capital projects in the amount of \$10,000,000, fiscal year 2008 salary adjustments in the amount of \$4,100,000, building funds in the amount of \$15,000,000 and for budget stabilization in the amount of \$5,393,065.

A portion of the unencumbered carryover amount has been designated to the current implementation of the new County-wide Enterprise Resource Planning Financial Management system that the County plans to have operational on July 1, 2008. Additional unreserved fund balance amounts have been designated for MDC operations and to allow County Departments

and Elected Offices to carryover fiscal year 2007 budgeted balances into fiscal year 2008 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 formed a new department for the purpose of consolidating its efforts around substance abuse programs it operates. This new department, the Department of Substance Abuse Programs (DSAP), administers roughly \$5 million in funding for services and programs that reduce DWI and substance abuse in our community. The primary source of this funding is liquor excise taxes collected by the State of New Mexico and distributed to all 33 counties in New Mexico in accordance with the Local DWI Program Act (11-6A-1 through 11-6A-6 NMSA 1978). Through this funding mechanism Bernalillo County provides a comprehensive array of DWI and substance abuse related programs and services including youth prevention services, enhanced DWI law enforcement efforts, alternative sentencing programs for DWI offenders, and substance abuse treatment services for convicted offenders in the Metropolitan Detention Center. Additionally, DSAP provides the only public inebriate detoxification program in the county at the Metropolitan Assessment and Treatment Services (MATS) facility. The MATS facility houses the county's 42-bed detoxification program and the county also leases space within MATS to the State of New Mexico for its chemical dependency hospital known as Turquoise Lodge, and to the University of New Mexico for its Forensic Case Management program. Bernalillo County is presently expanding service offerings on the MATS campus by constructing an 80-bed aftercare facility to help homeless substance abusers transition to productive community life by providing housing and other supportive services to this fragile population.

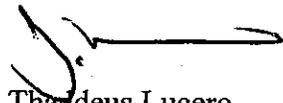
AWARDS AND ACKNOWLEDGEMENTS

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, 2006. This was the third 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.

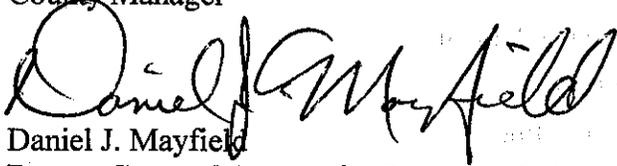
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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