

New Issue
BOOK ENTRY ONLY
Insurance: AMBAC ASSURANCE CORPORATION

RATINGS:
Moody's: Aaa
Standard & Poor's: AAA
Fitch: AAA

In the opinion of Hughes & Strumor, Ltd. Co., Bond Counsel, under existing regulations, rulings and judicial decisions and assuming continuous compliance with certain covenants set forth in the documents pertaining to the Bonds and certain requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes. In the opinion of Bond Counsel, interest on the Bonds will not be treated as an item of tax preference in calculating the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax on certain corporations (as defined for federal income tax purposes). Additionally, in the opinion of Bond Counsel, interest on the Bonds is exempt from taxation by the State of New Mexico. (See "Tax Exemption" herein.)

\$43,690,000
BERNALILLO COUNTY, NEW MEXICO
GROSS RECEIPTS TAX REFUNDING REVENUE BONDS
SERIES 2005

Dated: Date of Issuance

Due: October 1 as set forth below

The Bonds are being issued pursuant to the County Revenue Bond Act, Sections 4-62-1 et seq., NMSA 1978, Section 4-37-1, NMSA 1978, and Section 7-20E-9, NMSA 1978, to provide funds to defease the Bernalillo County, New Mexico Gross Receipts Tax Revenue Bonds, Series 1999, and to pay costs of issuance of the Bonds, including an Underwriter's Discount.

The Bonds will be issued as fully registered bonds, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, the securities depository for the Bonds, to which principal and interest payments on the Bonds will be made. Individual purchases will be made in book entry form only in denominations of \$5,000 or any integral multiple thereof. Purchasers of the Bonds will not receive physical delivery of bond certificates. (See "THE BONDS--Book Entry Only System.") Interest is payable semi-annually on April 1 and October 1 commencing April 1, 2006. Principal is payable as detailed below. The Bonds are not subject to redemption prior to maturity (see "THE BONDS--Prior Redemption").

Payment of the principal and interest on the Bonds, when due, will be insured by a financial guaranty insurance policy to be issued by **Ambac Assurance Corporation ("Ambac")** simultaneously with the delivery of the Bonds.

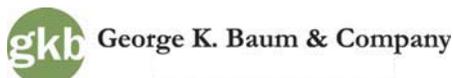


The Bonds are special limited obligations of the County, payable solely from Pledged Revenues as described herein. The Bonds are not general obligations of the County and neither pledge the full faith and credit of the County nor the *ad valorem* taxing power or general resources of the County, the State of New Mexico or any political subdivision to the payment of the Bonds. (See "THE BONDS--Source of Payment and Security"). The Bonds are being issued with a lien on the Pledged County Gross Receipts Tax Revenues on a parity with the Series 1996 Bonds, the Series 1996B Bonds, the Series 1998 Bonds, the remaining 1999 Bonds, the Series 2001 Bonds, the Series 2002 Bonds, and the Series 2004 Bonds. (See "THE BONDS--Parity Bonds").

MATURITY, INTEREST RATE, AND YIELD

Due	Principal	Interest	Yield (%)	Due	Principal	Interest	Yield (%)
October 1		Rate (%)		October 1		Rate (%)	
2006	\$250,000	4.000	2.890	2015	\$1,950,000	5.000	3.890
2007	\$50,000	3.500	3.020	2016	\$1,925,000	5.250	3.980
2008	\$50,000	3.500	3.120	2017	\$1,925,000	5.250	4.040
2009	\$50,000	3.500	3.250	2018	\$3,100,000	5.250	4.080
2010	\$995,000	3.750	3.330	2019	\$2,800,000	5.250	4.120
2010	\$620,000	4.500	3.330	2020	\$2,985,000	5.250	4.140
2011	\$750,000	3.750	3.460	2021	\$3,100,000	5.250	4.180
2011	\$645,000	4.500	3.460	2022	\$3,270,000	5.250	4.220
2012	\$1,400,000	4.000	3.580	2023	\$3,425,000	5.250	4.270
2013	\$1,870,000	5.000	3.700	2024	\$3,600,000	5.250	4.300
2014	\$280,000	4.500	3.800	2025	\$3,850,000	5.250	4.320
2014	\$1,075,000	5.000	3.800	2026	\$3,725,000	5.250	4.340

The Bonds are being offered when, as and if issued by the County and purchased by the Underwriter, subject to the delivery of an approving legal opinion by Hughes & Strumor, Ltd. Co., Albuquerque, New Mexico, Bond Counsel. Certain other matters will be passed upon by Hughes & Strumor, Ltd. Co. as Disclosure Counsel, and for the Underwriter by Virtue, Najjar and Brown, PC, as counsel to the Underwriter. It is anticipated that the Bonds will be available for delivery through The Depository Trust Company, New York, New York on or about October 19, 2005.



Dated: September 27, 2005

BERNALILLO COUNTY, NEW MEXICO

One Civic Plaza, N.W., Suite 10111
Albuquerque, New Mexico 87102
Telephone: (505) 768-4000

COUNTY COMMISSION

Alan B. Armijo, Chair
E. Tim Cummins, Vice Chair
Teresa L. Córdova, Commissioner
Deanna Archuleta-Loeser, Commissioner
Michael Brasher, Commissioner

COUNTY OFFICIALS

Thaddeus Lucero, Manager
Patrick J. Padilla, Treasurer
Mark J. Carrillo, Assessor
Mary E. Herrera, Clerk

COUNTY FINANCE DEPARTMENT

Dan Mayfield
Deputy County Manager for Finance
One Civic Plaza, N.W., 10th Floor
Albuquerque, New Mexico 87102
Telephone: (505) 768-4020

BOND & DISCLOSURE COUNSEL

Hughes & Strumor, Ltd. Co.
2221 Rio Grande Blvd. NW, Suite 100
Albuquerque, New Mexico 87104
Telephone: (505) 842-6700

UNDERWRITER

George K. Baum & Company
One Park Square
6501 Americas Pkwy. NE, Suite 360
Albuquerque, NM 87110
Telephone: (303) 872-2320

UNDERWRITER'S COUNSEL

Virtue, Najjar and Brown, PC
2200 Brothers Road
Santa Fe, NM 87505
Telephone: 505-983-6101

USE OF INFORMATION IN THIS OFFICIAL STATEMENT

This Official Statement, which includes the cover page and the Appendices (“Official Statement”), does not constitute an offering of any security other than the original offering of the Bernalillo County, New Mexico Gross Receipts Tax Refunding Revenue Bonds, Series 2005, identified on the cover hereof (the “Bonds”). No dealer, broker, salesman or other person has been authorized by the County or the Underwriter to give any information or make any representation with respect to the Bonds which is not contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by the County or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall be no sale of any of the Bonds, by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

The Bonds will not be registered under the Securities Act of 1933, as amended, or under any state securities law and will not be listed on any stock or other securities exchange. Neither the United States Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy or adequacy of this Official Statement.

Copies of the Bond Ordinance authorizing the issuance of the Bonds are available upon request at the office of the Bernalillo County Clerk, One Civic Plaza NW, Albuquerque, New Mexico 87102, telephone (505) 768-4090.

THE PRICES AT WHICH THE BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITER (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES OR YIELDS APPEARING ON THE COVER PAGE. IN ADDITION, THE UNDERWRITER MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES OR YIELDS TO DEALERS AND OTHERS.

The County has entered into an undertaking (the “Undertaking”) for the benefit of the holders of the Bonds to send certain financial information and operating data to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of certain events, pursuant to the requirements of section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. PART 240, § 240.15c2-12) (the “Rule”).

The County has not failed to comply with any prior such undertaking under the rule. A failure by the County to comply with the undertaking will not constitute an event of default under the Bond Ordinance (although bondholders will have any available remedy at law or in equity). Nevertheless, such a failure must be reported in accordance with the rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the bonds and their market price.

The information set forth herein has been obtained from the County and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or any other party described herein since the date hereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

	PAGE #
Summary Information	1
Purpose and Plan of Financing	3
Sources of Funds	3
Parity Bonds Debt Service Schedule	4
Debt Service Coverage	5
County Gross Receipts Tax Revenues	6
General	6
Description of the Gross Receipts Tax	6
County Gross Receipts Tax	6
Tax Administration	6
Gross Receipts Tax Exemptions	7
Pending Legislation	8
County Gross Receipts Tax Revenues	8
Reported Total Gross Receipts–Bernalillo County	9
Taxable Gross Receipts: Bernalillo County vs. State of New Mexico	9
The Bonds	10
Reserve Fund	10
Book-Entry-Only System	10
Registration, Transfer and Exchange	13
Principal and Interest Payments	13
Prior Redemption	13
Source of Payment and Security	14
Additional Bonds or Other Obligations	14
Parity Bonds	14
Outstanding Parity Bonds	15
Subordinate Obligations	15
Outstanding Subordinate Obligations	16
Superior Obligations Prohibited	16
Protective Covenants	16
Defeasance	18
Default and Remedies	18
Bond Ordinance Amendments	19
Bond Legislation Irrepealable	19
Insurance	20
Payment Pursuant to Financial Guaranty Insurance Policy	20
Ambac Assurance Corporation	21
Available Information	22

The County	23
General	23
The Government Body	24
Bernalillo County Commissioners	25
County Manager and Staff	26
Public Employee’s Retirement	26
Investment Policy of Bernalillo County	27
Investments	27
Legal Investments	27
Current Investments	29
Summary of Significant Accounting Policies of the County	29
2004 Audit Report	29
Basis of Presentation – Fund Accounting	29
Fixed Assets and Long-Term Liabilities	30
Basis of Accounting	31
Financial Information	32
Statement of Activities for the Year Ended June 30, 2004	32
Revenues , Expenditures and Fund Balances	34
Undertaking to Provide Ongoing Disclosure	35
Litigation	37
Transcript and Closing Documents	38
Legal Matters	38
Tax Exemption	38
Rating	39
Underwriting	40
Miscellaneous	40
Forward-Looking Statements	41
County Approval of Official Statement	42

APPENDICES

Appendix A Form of Bond Counsel Opinion

Appendix B Certain Statistical Information

Appendix C State of New Mexico County of Bernalillo Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2004

Appendix D Financial Guaranty Insurance Policy

(THIS PAGE LEFT BLANK INTENTIONALLY)

SUMMARY INFORMATION

The following material represents a summary of information contained within this Official Statement and is qualified in its entirety by the detailed information herein. This summary is only a brief statement and a full review of this Official Statement should be made by potential investors.

- DATE:** The Bonds are dated the date of issuance.
- PRINCIPAL AND INTEREST PAYMENTS:** Interest is payable semi-annually on April 1 and October 1 in each year beginning on April 1, 2006. The Bonds mature on October 1 of each year as indicated on the cover page of this official statement.
- REDEMPTION:** The Bonds are not subject to redemption prior to maturity.
- AUTHORIZATION:** The Bonds are to be issued pursuant to County Ordinance No. 2005-13 adopted on September 13, 2005 and County Resolution No. FR 72-2005, adopted by the County Commission on September 27, 2005 (the “Bond Ordinance”).
- PLEGGED REVENUES:** The Bonds are payable solely from County Gross Receipts Tax Revenues which equal one-fourth of one percent (.25%) of the taxable gross receipts reported for the County for each month excepting from the second one-eighth increment of such revenues the amount of \$1,000,000 annually, at the rate of \$83,333.33 per month, for indigent care pursuant to Section 7-20E-9.C., NMSA 1978, and the State Distribution described herein. The State Distribution and the County Gross Receipts Tax Revenues are the Pledged Revenues.
- SECURITY:** The Bond Ordinance provides a first lien, but not an exclusive first lien, on the Pledged Revenues, which revenues are remitted monthly by the Revenue Division of the Taxation and Revenue Department of the State to the County as authorized by Sections 7-1-6.1, 7-1-6.13, and 7-1-6.47, NMSA 1978. Payment of the principal amount and interest on the Bonds, when due, will be insured by a financial guaranty insurance policy to be issued by Ambac simultaneously with the delivery of the Bonds.
- PROJECT:** The proceeds of the Bonds will be used to refund and defease the Bernalillo County, New Mexico Gross Receipts Tax Revenue Bonds, Series 1999 (the “Refunded Bonds”).

PARITY BONDS:

The Bonds are being issued with a lien on the Pledged Revenues equal to and on a parity with the Bernalillo County, New Mexico Gross Receipts Tax Revenue Bonds, Series 1996, issued in the aggregate principal amount of \$1,580,000, dated April 1, 1996 and issued April 23, 1996 (the “Series 1996 Bonds”), the Bernalillo County, New Mexico Gross Receipts Tax Revenue Bonds, Series 1996B, issued in the aggregate principal amount of \$61,260,000, dated December 1, 1996 and issued December 12, 1996 (the “Series 1996B Bonds”), the Bernalillo County, New Mexico Gross Receipts Tax Revenue Bonds, Series 1997, issued in the aggregate principal amount of \$17,925,000, dated December 1, 1997 and issued December 17, 1997 (the “Series 1997 Bonds”), the Bernalillo County, New Mexico Gross Receipts Tax Refunding Revenue Bonds, Series 1998, issued in the aggregate principal amount of \$53,450,000, dated February 1, 1998 and issued February 17, 1998 (the Series 1998 Bonds”), the non-refunded Bernalillo County, New Mexico Gross Receipts Tax Revenue Bonds, Series 1999, issued in the aggregate principal amount of \$64,340,000, dated September 1, 1999 and issued September 16, 1999 (the “Series 1999 Bonds”), the Bernalillo County, New Mexico Gross Receipts Tax Revenue Bonds, Series 2001 issued in the aggregate principal amount of \$2,150,000, dated June 15, 2001 and issued June 26, 2001 (the Series 2001 Bonds”), the Bernalillo County, New Mexico Gross Receipts Tax Refunding Revenue Bonds, Series 2002, issued in the aggregate principal amount of \$2,100,000, dated November 15, 2002 and issued November 19, 2002 (the “Series 2002 Bonds”), the Bernalillo County, New Mexico Gross Receipts Tax Revenue Bonds, Series 2004, issued in the aggregate principal amount of \$12,000,000, dated June 30, 2004 and issued August 12, 2004 (the “Series 2004 Bonds”), and any other bonds or other obligations, now or hereafter issued or incurred, payable from or secured by a lien or a pledge of the Pledged Revenues on a parity with the Bonds.

PURPOSE AND PLAN OF FINANCING

Proceeds received by the County from the sale of the Bonds will be used primarily to fund an escrow to defease the Refunded Bonds and to pay costs associated with the issuance of the Bonds.

The following table shows the estimated sources and uses of the proceeds of the Bonds and other available funds.

SOURCES OF FUNDS

Par amount of the Bonds:	\$43,690,000.00
Original Issue Premium:	4,674,359.55
Funds from Series 1999 Debt Service Schedule:	<u>5,486,548.00</u>
TOTAL SOURCES OF FUNDS:	<u>\$53,850,907.55</u>

Deposit to Project Fund:	\$1,200,000.00
Deposit to Debt Service Reserve Fund:	4,933,748.58
Deposit to Escrow Account:	46,925,700.00
Underwriter's Discount:	362,732.70
Costs of Issuance ¹ :	<u>418,725.27</u>
TOTAL USES OF FUNDS:	<u>\$53,850,907.55</u>

¹Includes legal fees, printing, Bond Insurance Premium and other miscellaneous fees (see "UNDERWRITING").

PARITY BONDS DEBT SERVICE SCHEDULE

The Bonds are issued with a lien on the Pledged County Gross Receipts Tax Revenues equal to and on a parity with the Series 1996 Bonds, the Series 1996B Bonds, the Series 1997 Bonds, the Series 1998 Bonds, the Series 2001 Bonds, the Series 2002 Bonds, the Series 2004 Bonds, and any other bonds or other obligations, now or hereafter issued or incurred, payable from or secured by a lien or a pledge of the Pledged Revenues on a parity with the Bonds. Total aggregate debt service for the Series 1996 Bonds, the Series 1996B Bonds, the Series 1997 Bonds, the Series 1998 Bonds, the non-refunded Series 1999 Bonds, the Series 2001 Bonds, the Series 2002 Bonds, the Series 2004 Bonds and the Series 2005 Bonds is as follows:

Fiscal Year	Outstanding Parity Debt	Series 2005 Bonds	Total Debt Service
2006	\$12,044,770	\$ 972,551.25	\$13,017,321.25
2007	12,787,341	2,371,925.00	15,159,266.00
2008	12,743,861	2,167,362.50	14,911,223.50
2009	12,730,729	2,161,925.00	14,892,654.00
2010	12,742,479	2,161,575.00	14,904,054.00
2011	11,156,529	3,694,693.75	14,851,222.75
2012	11,125,754	3,410,425.00	14,536,179.00
2013	10,789,566	3,360,762.50	14,150,328.50
2014	10,738,485	3,758,037.50	14,496,522.50
2015	10,694,048	3,160,487.50	13,854,535.50
2016	10,688,179	3,676,062.50	14,364,241.50
2017	10,894,679	3,549,475.00	14,444,154.00
2018	10,889,198	3,451,300.00	14,340,498.00
2019	9,446,778	4,192,412.50	13,639,190.50
2020	9,454,830	4,035,818.75	13,490,648.75
2021	9,448,760	4,072,375.00	13,521,135.00
2022	9,456,940	4,026,187.50	13,483,127.50
2023	9,462,340	4,027,781.25	13,490,121.25
2024	9,467,000	4,006,106.25	13,473,106.25
2025	9,444,803	4,000,900.00	13,445,703.00
2026	9,479,961	4,054,668.75	13,534,629.75
2027	9,825,600	3,730,418.75	13,556,018.75

DEBT SERVICE COVERAGE¹

Fiscal Year	Total Pledged Revenues¹	Combined Debt Service	Coverage
2006	37,708,812	\$13,017,321	2.90 x
2007	37,708,812	15,159,266	2.49 x
2008	37,708,812	14,911,223	2.53 x
2009	37,708,812	14,892,654	2.53 x
2010	37,708,812	14,904,054	2.53 x
2011	37,708,812	14,851,223	2.54 x
2012	37,708,812	14,536,179	2.59 x
2013	37,708,812	14,150,328	2.66 x
2014	37,708,812	14,496,522	2.60 x
2015	37,708,812	13,854,353	2.72 x
2016	37,708,812	14,364,241	2.63 x
2017	37,708,812	14,444,154	2.61 x
2018	37,708,812	14,340,498	2.63 x
2019	37,708,812	13,369,191	2.82 x
2020	37,708,812	13,490,649	2.80 x
2021	37,708,812	13,521,135	2.79 x
2022	37,708,812	13,483,127	2.80 x
2023	37,708,812	13,490,121	2.80 x
2024	37,708,812	13,473,106	2.80 x
2025	37,708,812	13,445,703	2.80 x
2026	37,708,812	13,534,630	2.79 x
2027	37,708,812	13,556,019	2.78 x

¹*Pledged Revenues received by the County for the Fiscal Year ended June 30, 2005 (unaudited). There can be no assurance that future revenues will not be less thereby lowering the coverage ratio.*

COUNTY GROSS RECEIPTS TAX REVENUES

GENERAL

The Bonds are payable solely out of the proceeds of the County Gross Receipts Tax Revenues distributed to the County as described below.

DESCRIPTION OF THE GROSS RECEIPTS TAX

The Gross Receipts and Compensating Tax Act (Sections 7-9-1 through 7-9-82, NMSA 1978) authorizes the State to impose a gross receipts tax (the “State Gross Receipts Tax”) which is levied by the State for the privilege of doing business in the State and is collected by the New Mexico Taxation and Revenue Department (the “Department”). The State presently levies a gross receipts tax of five percent (5.00%).

COUNTY GROSS RECEIPTS TAX

The County Local Option Gross Receipts Taxes Act (Sections 7-20E-1, *et seq.*, NMSA 1978) allows counties to impose various gross receipts taxes. Section 7-20E-9, NMSA 1978, provides that the majority of the members of the governing body of any county may enact an ordinance or ordinances imposing an excise tax not to exceed a rate of three-eighths of one percent of the gross receipts of any person engaging in business in the county for the privilege of engaging in business in the county. Any ordinance imposing an excise tax pursuant to that Section shall impose the tax in independent increments of one-eighth percent separately denominated as “first one-eighth,” “second one-eighth” and “third one-eighth,” respectively, not to exceed an aggregate amount of three-eighths of one percent. This tax is referred to as the “County Gross Receipts Tax.”

The ordinance imposing the County Gross Receipts Tax becomes effective either July 1 or January 1, whichever date occurs first after the expiration of three months from the date the ordinance is enacted or the date the results of the election are certified.

The County has enacted and is pledging the first and second one-eighth increments to payment of the Bonds. The County has imposed the third one-eighth increment and the one-sixteenth increment which are not pledged to the payment of the Bonds.

TAX ADMINISTRATION

The Department is responsible for administering the Gross Receipts and Compensating Tax Act and for collecting the State Gross Receipts Tax and all local option gross receipts taxes imposed by New Mexico counties and municipalities. The Department makes monthly distributions to counties and municipalities, as applicable, of State shared receipts and of receipts from local option gross receipts taxes.

TAX RATE HISTORY

The County enacted the first one-eighth increment by ordinance approved on June 11, 1986, effective January 1, 1987, the second one-eighth increment by ordinance adopted on April 25, 1989, effective January 1, 1990, the third one-eighth increment by ordinance adopted on September 14, 2004, effective January 1, 2005, and the one-sixteenth increment by ordinance adopted on September 14, 2004, effective January 1, 2005.

GROSS RECEIPTS TAX EXEMPTIONS

Some activities and industries are exempt from the State Gross Receipts Tax, many by virtue of their taxation under other laws. Exemptions include but are not limited to receipts of certain governmental agencies and certain organizations, and receipts from the sale of vehicles, occasional sales of property or services, wages, certain agricultural products, dividends interest and receipts from the sale of or leasing of natural gas, oil or mineral interests. Various deductions are allowed including, but not limited to, receipts from various types of sales or leases of tangible personal property or services, receipts from sales to governmental agencies or certain organizations, receipts from processing certain agricultural products, receipts from certain publication sales, prescription drugs and medical services related to Medicare patients, and certain receipts from interstate commerce transactions. In spite of the numerous specified exemptions and deductions from gross receipts taxation, the general presumption is that all receipts of a person engaging in business in the State are subject to the State Gross Receipts Tax and applicable county and municipal local option gross receipts taxes.

RECENT STATUTORY CHANGES AFFECTING THE GROSS RECEIPTS TAX

In 2004, the New Mexico Legislature passed and Governor Richardson signed into law Senate Floor Substitute for House Bill 625, being Chapter 116 of the Laws of 2004 that provided deductions under State and local gross receipts taxes for gross receipts from the sale of food and the sale of certain health care services.

In order to avoid adverse effects to local governments, Section 7-1-6.1, NMSA 1978, as amended, provides for certain distributions from the State to municipalities and counties that are calculated to offset the revenue loss arising from the new deductions. Specifically, and with respect to counties, Section 7-1-6.47, NMSA 1978, as amended, provides for a monthly distribution (“State Distribution”) to each county of a sum that is equal to the amount of the total of the new deductions claimed within the County times the combined rate of all of the county local option gross receipts taxes then in effect.

The total amount of the State Distribution is estimated to closely approximate the total reduction in gross receipts tax revenues arising from the new deductions. Section 7-1-6, NMSA 1978, as amended does not, however, provide for an allocation of the State Distribution to each of the various county local option gross receipts taxes; rather, the State Distribution is simply provided to each county in a monthly lump sum. Thus, Section 7-1-6, NMSA 1978, does not, by itself, have the

effect of specifically restoring to the Pledged Revenues the amount that will be lost from such revenues as a result of the new deductions.

The County has, in the Bond Ordinance, pledged the State Distribution allocable to the Bonds.

PENDING LEGISLATION

Various bills affecting State and local gross receipts taxes have been introduced in past State Legislative Sessions. The proposed legislation ranges from technical amendments to additional deductions such as food purchased in grocery stores. It is not possible to accurately estimate whether any of the proposed legislation will be enacted nor what the content of such legislation would be following the legislative hearing process; however, the County does not anticipate the enactment of any proposed legislation having a material adverse affect on its financial condition, its gross receipts tax revenues, or its ability to meet its obligations under the Bonds.

COUNTY GROSS RECEIPTS TAX REVENUES¹

	<u>1997/1998</u>	<u>1998/1999</u>	<u>1999/2000</u>	<u>2000/2001</u>	<u>2001/2002</u>	<u>2002/2003</u>	<u>2003/2004</u>	<u>2004/2005</u>
July	\$ 2,189,134	\$ 2,276,932	\$ 2,202,421	\$ 2,393,205	\$ 2,660,171	\$ 2,683,148	\$ 2,862,820	\$ 2,950,575
August	2,090,268	2,291,760	2,343,873	2,507,132	2,483,968	2,655,902	3,069,642	2,983,531
September	2,423,358	2,492,130	2,278,277	2,428,468	2,541,287	2,743,692	2,808,527	3,132,349
October	2,303,089	2,229,497	2,684,965	2,407,960	2,687,569	2,489,290	2,856,172	2,884,615
November	2,251,206	2,372,604	2,533,051	2,462,018	2,645,761	2,727,725	2,726,450	2,958,336
December	2,475,727	2,684,541	2,739,862	2,706,832	3,045,269	3,175,730	3,241,097	3,552,260
January	2,085,934	1,859,670	2,153,539	2,443,327	2,385,057	2,631,365	3,025,846	2,697,040
February	2,118,738	2,382,352	2,405,612	2,900,390	2,434,919	2,705,334	2,771,324	3,142,508
March	2,211,517	2,426,333	2,179,500	2,409,731	2,459,379	2,423,749	2,940,218	3,561,876
April	2,245,133	2,228,498	2,558,403	2,371,777	2,669,533	2,762,433	2,957,371	3,360,526
May	2,397,586	2,331,784	2,613,659	2,810,535	2,358,743	2,684,423	2,801,566	3,068,930
June	2,472,381	2,308,314	2,581,831	2,704,039	3,002,859	3,188,961	3,253,987	3,416,266
Total	<u>\$27,264,071</u>	<u>\$27,884,415</u>	<u>\$29,274,992</u>	<u>\$30,545,413</u>	<u>\$31,374,515</u>	<u>\$32,871,753</u>	<u>\$35,315,021</u>	<u>\$37,708,812</u>

Source: Bernalillo County

¹ Revenues are net of one million dollars (\$1,000,000) set aside for indigent care.

REPORTED TOTAL GROSS RECEIPTS—BERNALILLO COUNTY (CALENDAR YEAR, 000'S OMITTED)

The following table shows total gross receipts reported using the “North American Industrial Classification” which the State of New Mexico began using in 2003.

	2003	2004	First Half 2005
Agriculture, forestry, fishing & hunting	\$ 20,224	\$ 21,077	\$ 9,592
Mining and oil and gas extraction	2,469	3,914	2,698
Utilities	565,247	583,995	333,199
Construction	2,496,897	3,027,736	1,695,016
Manufacturing	1,448,777	1,682,176	873,526
Wholesale trade	3,954,858	5,082,585	2,652,187
Retail trade	5,988,371	6,619,208	3,398,062
Transportation and warehousing	161,414	228,060	101,991
Information and culture	372,739	362,674	176,751
Finance and insurance	177,585	191,608	86,516
Real estate rental and leasing	435,264	619,105	313,472
Professional, scientific, technical	3,461,241	3,908,808	2,183,487
Management of companies	70,759	48,575	15,217
Admin., health care, entertainment, hotels and food services	2,260,991	2,774,260	1,341,076
Other services (except public admin.)	1,803,523	2,662,148	1,288,710
Automotive, household and personal services	682,743	Incl. in admin. et al	-
Public administration	12,727	18,460	9,375
Unclassified	22,220	438,512	533,247
	<u>\$ 23,938,049</u>	<u>\$ 28,272,901</u>	<u>\$15,014,122</u>

Source: New Mexico Department of Taxation and Revenue.

TAXABLE GROSS RECEIPTS: BERNALILLO COUNTY VS. STATE OF NEW MEXICO

	<u>State of New Mexico</u>	<u>Bernalillo County</u>	<u>County % of State</u>
1991	\$20,165,832,894	\$7,801,786,273	38.69%
1992	21,451,546,657	8,369,334,398	39.02%
1993	22,604,360,074	9,111,745,483	40.31%
1994	25,510,105,615	10,356,457,318	40.60%
1995	26,412,963,737	10,583,879,285	40.07%
1996	27,640,718,985	11,245,352,900	40.68%
1997	29,622,010,573	11,987,295,249	40.47%
1998	30,535,056,644	12,102,428,514	39.63%
1999	31,583,386,356	12,423,487,693	39.34%
2000	33,599,208,000	13,295,143,000	39.57%
2001	36,274,363,000	14,017,155,000	38.64%
2002	31,822,487,644	13,448,123,429	42.26%
2003	37,091,255,110	13,820,593,316	37.26%
2004	40,210,748,627	15,052,093,776	37.43%

Source: New Mexico Taxation and Revenue Department.

THE BONDS

The County is authorized under Sections 4-62-1 through 4-62-10, NMSA 1978, Section 4-37-1, NMSA 1978, and Section 7-20E-9, NMSA 1978, to issue gross receipts tax revenue bonds such as the Bonds, and to pledge the County Gross Receipts Tax Revenues. The Bonds are issued in accordance with the statutory provisions and pursuant to the Bond Ordinance. The County makes a covenant under the Bond Ordinance not to repeal or amend any law, ordinance or resolution in a manner that impairs adversely any of the outstanding Bonds. Additionally, the County covenants not to take any action or fail to take any action necessary to cause the interest on the Bonds to become taxable.

A general description of the Bonds appears on the cover page of this Official Statement. That information should be read in conjunction with the following summary of additional terms of the Bonds and the provisions of the Bond Ordinance regarding the Bonds. All capitalized terms shall have the same meaning as in the Bond Ordinance unless the context in which they are used clearly indicates otherwise.

RESERVE FUND

The Bond Legislation requires the establishment of a Reserve Fund in an amount equal to \$4,933,748.58. The Reserve Fund is being funded with monies transferred from the Refunded Bonds reserve fund.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York, (“DTC”), will act as securities depository (the “Securities Depository”) for the Bonds. The Bonds will be issued as fully-registered securities in the name of Cede & Co., DTC’s partnership nominee. One fully-registered certificate will be issued in the aggregate principal amount for each Stated Maturity.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in the accounts of Participants, thereby eliminating the need for physical movement of securities certificates. There are two types of Participants, “Direct Participants” and “Indirect Participants.” Direct Participants include securities brokers and dealers, banks, trust companies,

clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (the “Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC System must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participants or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communication by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants whose accounts the Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made by the paying agent (initially the Deputy County Manger for Finance, the “Paying Agent”) to DTC. DTC’s practice is to credit Direct Participant’s accounts on the payable date in accordance with their respective holdings shown on DTC’s records, unless DTC has reason to believe that it will not receive payments on the payable

date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the County or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the County or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

So long as Cede & Co., or its registered assigns, is the registered owner of the Bonds, the County, the Paying Agent and the Registrar will be entitled to treat Cede & Co., or its registered assigns, as the absolute owner thereof for all purposes of the Bond Ordinance and any applicable laws. Notwithstanding any notice to the contrary received by the County, the Paying Agent or the Registrar, the County, the Paying Agent and the Registrar will have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any Beneficial Owner of the Bonds.

WHEN REFERENCE IS MADE TO ANY ACTION WHICH IS REQUIRED OR PERMITTED TO BE TAKEN BY THE BENEFICIAL OWNERS SUCH REFERENCE ONLY RELATES TO THOSE PERMITTED TO ACT BY STATUTE, REGULATION OR OTHERWISE ON BEHALF OF SUCH BENEFICIAL OWNERS FOR SUCH PURPOSES. WHEN NOTICES ARE GIVEN TO BENEFICIAL OWNERS, THEY ARE TO BE SENT TO DTC.

NEITHER THE COUNTY NOR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, (2) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT, REDEMPTION PRICE OF OR INTEREST ON THE BONDS, (3) THE DELIVERY BY ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND ORDINANCE TO BE GIVEN TO THE REGISTERED OWNER, OR (4) ANY OTHER ACTION TAKEN BY DTC AS THE REGISTERED OWNER OF THE BONDS.

If (i) the Bonds are not eligible for the services of DTC, (ii) DTC determines to discontinue providing its services with respect to the Bonds or (iii) the County determines that a system of book-entry transfers, or the continuation thereof, through DTC is not in the best interest of the Beneficial Owners or the County, the County will either identify another qualified depository or Bond certificates will be delivered to Beneficial Owners thereof or their nominees and, if certificates are

delivered to the Beneficial Owners or their nominees, they will become the Owners of the Bonds for all purposes. In any event, the Registrar is to mail an appropriate notice to the depository for notification to Participants and Beneficial Owners of the substitute depository or the issuance of Bonds to Beneficial Owners or their nominees, as applicable.

REGISTRATION, TRANSFER AND EXCHANGE

Books for the registration and transfer of the Bonds shall be kept by the Registrar, initially the Deputy County Manager for Finance. Upon the surrender for transfer of any Bond at the Registrar, duly endorsed for transfer, the Registrar shall authenticate and deliver in the name of the transferee or transferees a new Bond or Bonds of a like aggregate principal amount, of the same maturity and bearing a number or numbers not contemporaneously outstanding. Bonds may be exchanged at the Registrar for an equal aggregate principal amount of Bonds of the same maturity of other authorized denominations. Exchanges and transfers of the Bonds shall be without charge to the owner or any transferee, but the Registrar may require payment by the owner of any Bond requesting exchange or transfer of any tax or other governmental charge required to be paid with respect to such exchange or transfer. The person in whose name any Bond is registered on the registration books kept by the Registrar shall be deemed and regarded as the absolute owner thereof for the purpose of making payment thereof and for all other purposes except as otherwise may be provided with respect to payment of interest as provided in the Bond Ordinance; and payment of or on account of either principal or interest on any Bond shall be made only to or upon the written order of the registered owner thereof or his legal representative. If any Bond shall be lost, stolen, destroyed or mutilated, the Registrar shall, upon receipt of such evidence, information or indemnity relating thereto as it may reasonably require, authenticate and deliver a replacement Bond or Bonds of a like aggregate principal amount, of the same maturity, and bearing a number or numbers not contemporaneously outstanding. If such lost, stolen, destroyed or mutilated Bond shall have matured, the Registrar may direct the Paying Agent to pay such Bond in lieu of replacement.

PRINCIPAL AND INTEREST PAYMENTS

Interest is payable semi-annually on April 1 and October 1 in each year beginning on April 1, 2006. The Bonds mature in the amounts and on the dates shown on the front cover of this Official Statement.

The initial Paying Agent for payment of principal and interest payments as they become due is the Deputy County Manager for Finance.

PRIOR REDEMPTION

The Bonds are not subject to redemption prior to maturity.

SOURCE OF PAYMENT AND SECURITY

THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE COUNTY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION, AND SHALL NOT BE CONSIDERED OR BE HELD TO BE A GENERAL OBLIGATION OF THE COUNTY. The Pledged County Gross Receipts Tax Revenues and related State Distribution (the “Revenues”) are the sole source for the payment of principal of and interest on the Bonds pursuant to the pledge made by and defined in the Bond Ordinance. County Gross Receipts Tax Revenues and the State Distribution are defined in the Bond Ordinance as that portion of the County Gross Receipts Tax Revenues which equals one-fourth of one percent (.25%) of the taxable gross receipts reported for the County for each month excepting from the second one-eighth increment of such revenues the amount of \$1,000,000 annually, at the rate of \$83,333.33 per month, for indigent care pursuant to Section 7-20E-9.C., NMSA 1978, as amended. The holder of any Bond may not look to any general or other fund for the payment of principal of and interest on the obligations. The Bonds are secured by a first lien, but not an exclusive first lien, on the Pledged Revenues.

So long as any of the Bonds shall be outstanding, whether as to principal or interest or both, all of the receipts of the County from the Pledged Revenues shall be deposited in the Series 1996A Revenue Fund, previously established in County Ordinance No. 96-11. One-twelfth (1/12) of the amount sufficient to pay the next maturing principal payment and one-sixth (1/6) of the amount necessary to pay the interest payment next coming due on the Bonds shall be deposited into the Bond Fund, monthly, from the Series 1996A Revenue Fund. The moneys in the Bond Fund shall be used solely and only for the purpose of paying the principal of and the interest on the Bonds; provided, however, that any moneys in the Bond Fund in excess of accrued and unaccrued principal and interest requirements to the respective maturities of the outstanding Bonds and the outstanding Parity County Gross Receipts Tax Obligations may be used in any lawful manner determined by the County.

ADDITIONAL BONDS OR OTHER OBLIGATIONS

Additional bonds or other obligations of the County payable from the Pledged Revenues and constituting a lien on the Pledged Revenues on a parity (“Parity County Gross Receipts Tax Obligations”) with or subordinate to the lien of the Bonds may be issued by the County, including refunding obligations.

PARITY BONDS

No provision of the Bond Ordinance shall be construed to prevent the issuance by the County of additional Parity County Gross Receipts Tax Obligations provided that the following conditions are met prior to the issuance of such parity bonds:

(1) No default shall exist in connection with any of the covenants or requirements of the Bond Ordinance; and

(2) The Pledged County Gross Receipts Tax Revenues received by the County for the twelve (12) months immediately preceding the date of the issuance of such additional Parity Gross Receipts Tax Obligations shall have been sufficient to pay an amount representing two hundred percent (200%) of the combined maximum annual principal and interest coming due in any subsequent Fiscal Year on the then outstanding County Gross Receipts Tax Obligations and the Parity County Gross Receipts Tax Obligations proposed to be issued.

A written certificate or opinion by an Independent Accountant that such annual Pledged Revenues are sufficient to pay such amount shall be conclusively presumed to be accurate in determining the right of the County to authorize, sell and deliver such additional bonds or other obligations on a parity with the Bonds.

OUTSTANDING PARITY BONDS

On April 23, 1996, the County issued its Series 1996 Bonds in the aggregate principal amount of \$1,580,000. The Series 1996 Bonds mature serially on April 1 of each year beginning April 1, 1997 through April 1, 2005. On December 12, 1996, the County issued its Series 1996B Bonds in the aggregate principal amount of \$61,260,000. The Series 1996B Bonds mature serially on April 1, 2000 through April 1, 2014, with term bonds, which are subject to mandatory sinking fund redemption, maturing on April 1, 2016, April 1, 2021, and April 1, 2027, respectively. On December 17, 1997, the County issued its Series 1997 Bonds in the aggregate principal amount of \$17,925,000. The Series 1997 Bonds mature serially on October 1 of each year beginning October 1, 1999 through October 1, 2012, with term bonds, which are subject to mandatory sinking fund redemption, maturing October 1, 2015 and October 1, 2017, respectively. On January 20, 1998, the County issued its Series 1998 Bonds in the aggregate principal amount of \$53,450,000. The Series 1998 Bonds mature serially on April 1 of each year beginning April 1, 1998 through April 1, 2017, with term bonds which are subject to mandatory sinking fund redemption, maturing April 1, 2021 and April 1, 2027, respectively. On September 16, 1999, the County issued its Series 1999 Bonds in the aggregate principal amount of \$64,340,000. The Series 1999 Bonds mature serially on October 1 of each year beginning October 1, 2000 through October 1, 2016, with term bonds which are subject to mandatory sinking fund redemption, maturing October 1, 2021 and October 1, 2026, respectively. The Series 1999 Bonds are the Refunded Bonds. The Series 1996 Bonds, the Series 1996B Bonds, the Series 1997 Bonds and the Bonds are secured by liens on the Pledged Revenues equal to and on a parity with each other (*See* "Parity Bonds Debt Service Schedule").

SUBORDINATE OBLIGATIONS

No provision of the Bond Ordinance shall be construed in such a manner as to prevent the issuance by the County of additional bonds or other obligations payable from the Pledged Revenues made subordinate and junior to the lien of the Bonds.

OUTSTANDING SUBORDINATE OBLIGATIONS

On June 30, 1999, the County issued its Bernalillo County, New Mexico Multifamily Housing Refunding and Improvement Revenue Bonds, Series 2001 (El Centro Senior Housing Complex), in the aggregate principal amount of \$2,000,000 (the "Housing Bonds"). A covenant of the County in the Housing Bonds creates a lien on the Pledged Revenues to satisfy deficiencies in the debt service reserve fund for the Housing Bonds. Such lien is subordinate to the liens of the Outstanding Parity Bonds and the Bonds on the Pledged Revenues.

On July 30, 2004 the County issued its Project Revenue Bonds (Mid-Region Council of Governments Project), in the aggregate principal amount of \$2,000,000 (the "Project Revenue Bonds"). A covenant of the County in the Project Revenue Bonds bond legislation creates a lien on the Pledged Revenues to satisfy deficiencies in the debt service reserve fund for the Project Revenue Bonds.

The Liens on the Housing Bonds and the Project Revenue Bonds noted above are subordinate to the liens of the Outstanding Parity Bonds and the Bonds on the Pledged Revenues.

SUPERIOR OBLIGATIONS PROHIBITED

The County shall not issue bonds payable from the Pledged Revenues having a lien thereon prior and superior to the Bonds.

PROTECTIVE COVENANTS

The County covenants and agrees with each and every registered owner of the Bonds that:

(1) *Payment of Bonds.* The County shall promptly pay the principal of and the interest on every Bond at the place, on the dates and in the manner specified in the Bond Ordinance and in the Bonds according to the true intent and meaning thereof. Such principal and interest are payable solely from the Pledged Revenues.

(2) *Records.* So long as any of the Bonds remain outstanding, proper books of record and account will be kept by the County, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to the Pledged Revenues.

(3) *Audits.* The County shall, at the time required by law, cause an audit of its books and accounts to be made by an Independent Accountant showing the Pledged Revenues and expenditures of the Pledged Revenues. The County shall furnish a copy of each such audit and report to the registered owner of any Bond upon request.

(4) *Extending Interest Payments.* In order to prevent any accumulation of claims for interest after maturity, the County shall not directly or indirectly extend or assent to extension of time for the payment of any claim for interest on any of the Bonds and the County shall not directly or indirectly be a party to or approve any arrangement for any such extension or for the purpose of keeping alive any of said interest; and, in case the time for payment of any such interest shall be extended, such installment or installments of interest after such extension or arrangement shall not be entitled in case of default to the benefit or security of the Bond Ordinance except subject to prior payment in full of the principal of all Bonds issued thereunder and then outstanding, and of matured interest on such Bonds, the payment of which has not been extended.

(5) *Duty to Impose Gross Receipts Tax.* If any County ordinance or part thereof, which in any manner affects the Pledged Revenues, shall ever be held to be invalid or unenforceable, it shall be the duty of the County to immediately take any action necessary to produce sufficient Pledged Revenues to comply with the contracted obligations of the Bond Ordinance.

(6) *Other Liens.* Other than as recited in the Bond Ordinance, the County shall not create or subject any liens or encumbrances of any nature whatsoever on or against the Pledged Revenues.

(7) *County's Existence.* The County shall maintain its identity and existence so long as any of the Bonds remain outstanding unless another political subdivision by operation of law succeeds to the duties, privileges, powers, liabilities, disabilities, immunities and rights of the County and is obligated by law to receive and distribute the Pledged Revenues in place of the County, without adversely affecting to any substantial degree the privileges and rights of any registered owner of any outstanding Bonds.

(8) *Impairment of Contract.* The County agrees that any law, ordinance or resolution of the County that in any manner affects the Pledged Revenues or the Bonds shall not be repealed or otherwise directly modified, in such a manner as to impair adversely the Bonds Outstanding, unless such Bonds have been discharged in full or provision has been fully made therefor, or unless the required consents of the holders of the then Outstanding Bonds are obtained pursuant to the Bond Ordinance.

(9) *Tax Covenant.* The County will not take any action or omit to take any action with respect to the Bonds, the proceeds thereof, any other funds of the County or any facilities financed with the proceeds of the Bonds if such action or omission: (i) would cause the interest on the Bonds to lose its exclusion from gross income for federal income tax purposes under Section 103 of the Code, or (ii) would cause interest on the Bonds to lose its exclusion from alternative minimum taxable income as defined in Section 55 of the Code except to the extent such interest is required to be included in the adjusted net book income and adjusted current earnings adjustments applicable to corporations in calculating corporate alternative minimum taxable income. The foregoing covenant shall remain in full force and effect notwithstanding the payment in full or defeasance of

the Bonds until the date on which all obligations of the County in fulfilling the above covenant under the Code are met.

DEFEASANCE

When all principal, any applicable prior redemption premium and interest in connection with the Bonds authorized have been duly paid, the pledge and lien and all obligations under the Bond Ordinance shall thereby be discarded and the Bonds shall no longer be deemed to be outstanding within the meaning of the Bond Ordinance. There shall be deemed to be such due payment as to any Bond when the County has placed in escrow and in trust with a commercial bank located within or without the State and exercising trust powers, an amount sufficient as verified by an Independent Accountant, (including the known minimum yield from Federal Securities in which such amount may initially be invested) to meet all requirements of principal, interest and any applicable prior redemption premium as the same become due to its maturity or designated redemption date as of which the County shall have exercised or obligated itself to exercise its option to call the Bonds. In addition, the County will obtain an opinion from Bond Counsel that the defeasance of the Bonds does not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

DEFAULT AND REMEDIES

Events of Default. The following constitute “Events of Default” under the Bond Ordinance:

(1) *Nonpayment of Principal or Interest.* The County fails to make any payment of principal of or interest on of the Bonds when due and payable; or

(2) *Incapable to Perform.* The County for any reason is rendered incapable of fulfilling its obligations under the Bond Ordinance; or

(3) *Default of any Provision.* The County fails in the due and punctual performance of its covenants or conditions, agreements and provisions contained in the Bonds or in the Bond Ordinance on its part to be performed, and such failure continues for sixty (60) days after written notice specifying such failure and requiring the same to be remedied has been given to the County by the registered owner of any Bonds then outstanding.

Remedies. Upon the happening and continuance of any Event of Default, the registered owner or owners of the Bonds, including but not limited to a trustee or trustees therefor, may proceed against the County, the Governing Body, and its agents, officers and employees to protect and enforce the rights aforesaid, or thereby to enjoin any act or thing which may be unlawful or in violation of any right of any registered owner of Bonds, under the Bond Ordinance, by mandamus or other suit, action or special proceedings in equity or at law, in any court of competent jurisdiction, either for specific performance of any covenant or agreement contained in the Bond Ordinance or in an award

of execution of any power herein granted for the enforcement of any power, legal or equitable remedy as such registered owner or owners may deem most effectual to protect and enforce the rights aforesaid, or thereby to enjoin any act or thing which may be unlawful or in violation of any right of any registered owner, or to require the Governing Body to act as if it were the trustee of an express trust, or any combination of such remedies. All such proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all registered owners of the Bonds then outstanding. The failure of any such registered owner so to proceed shall not relieve the County or any of its officers, agents or employees of any liability for failure to perform any duty. Each right or privilege of any such registered owner (or trustee thereof) is in addition and cumulative to any other right or privilege, and the exercise of any right or privilege by or on behalf of any registered owner shall not be deemed a waiver of any other right or privilege thereof.

BOND ORDINANCE AMENDMENTS

The Bond Ordinance may be amended without the consent of any Bondholder to correct any ambiguity, defect, or inconsistent provisions contained in the Bond Ordinance. The Bond Ordinance may be amended or supplemented by ordinance adopted by the Governing Body in accordance with the laws of the State, without receipt by the County of any additional consideration by the written consent of the registered owners of two-thirds of the Bonds outstanding at the time of adoption of such amendatory or supplemental ordinance; provided, however, that no such ordinance shall have the effect of permitting:

- (1) An extension of the maturity of any Bond; or
- (2) A reduction in the principal amount of any Bond, the rate of interest thereon or the redemption premium due in connection therewith; or
- (3) The creation of a lien upon the Pledged Revenues ranking prior to the pledge created by the Bond Ordinance; or
- (4) A reduction of the principal amount of Bonds required for consent to such amendatory or supplemental ordinance.

BOND LEGISLATION IRREPEALABLE

After any of the Bonds are issued, the Bond Legislation shall be and remain irrepealable until the Bonds and interest thereon shall be fully paid, canceled and discharged as therein provided, or there has been defeasance as provided in the Bond Legislation.

INSURANCE

PAYMENT PURSUANT TO FINANCIAL GUARANTY INSURANCE POLICY

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Paying Agent. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. Payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. Payment of any redemption, prepayment or acceleration premium.

3. Nonpayment of principal or interest caused by the insolvency or negligence of any Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

AMBAC ASSURANCE CORPORATION

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **\$8,720,000,000** (unaudited) and statutory capital of approximately **\$5,287,000,000** (unaudited) as of **June 30, 2005**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "**THE BONDS.**"

AVAILABLE INFORMATION

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These reports, proxy statements and other information can be read and copied at the SEC’s public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the “NYSE”), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance’s financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance’s administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;
2. The Company’s Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;
3. The Company’s Current Report on Form 8-K dated and filed on April 20, 2005;
4. The Company’s Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005;
5. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005;
6. The Company’s Current Report on Form 8-K dated and filed on July 20, 2005;
7. The Company’s Current Report on Form 8-K dated July 28, 2005 and filed on August 2, 2005; and

8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2005 and filed on August 9, 2005.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "AVAILABLE INFORMATION."

THE COUNTY

GENERAL

The County is located in the center of the State of New Mexico, and contains within its boundaries the City of Albuquerque. The County is also the most populous County in the State with about 526,614 residents and serves as the State's financial and commercial center. The County is intersected by Interstates 25 and 40, and is served by the A.T.&S.F. Railroad and the Albuquerque International Airport. The economy is a blend of services, tourism, government, research, and light manufacturing with some farming and ranching.

Because of its location in the "sunbelt," the existence of major national research facilities, the University of New Mexico, and the availability of cultural and recreational opportunities, the County has become one of the favored sites for high-tech industries. Some of the major high technology companies presently operating in the County include Honeywell, Motorola and Signetics. Intel has a major facility located just over the County line in Sandoval County and is completing an \$8 billion expansion. Sumitomo Sitix Silicon, Inc. constructed a new plant in 1995 on a 329 acre tract to manufacture semiconductor materials.

Since the second half of 1991, Bernalillo County, Albuquerque Municipal Statistical Area (MSA) and the State have experienced strong economic growth, particularly in the construction and services sectors. Strong economic growth in Bernalillo County and the State is expected to continue in the next few years, although the long-term outlook is for more moderate growth. America Online built a \$16 million center which opened on November 1, 1996 on the southwest corner of Jefferson Street and Osuna Road N.E. The average pay is approximately \$18,000/year.

In the Albuquerque MSA employment growth continues to expand. For the last 15 quarters, employment growth has gained relative to the previous quarter. Strength was again generally in evidence across the board with the exception of the federal government sector, which continued to shrink. Construction employment growth stayed in double-digits and services remained very strong. Personal income growth was estimated at 9.4%, while the unemployment rate was a low 5.3%. The outlook for the Albuquerque MSA remains very good. Various public and private sector construction projects have kept construction employment growing reasonably well. The

unemployment rate in Bernalillo County for the 1st quarter of 1999 was 4.1%.

Sandia National Laboratories is managed by Lockheed Martin and has been heavily involved in nuclear weapons research. In anticipation of a decline in defense spending for nuclear weapons research, the lab is diversifying its mission to include other forms of research. The lab has entered into contracts with private industry for a number of projects, including a \$35 million contract to develop solar power plants to be sold to U.S. utility companies and under-developed nations. The lab has also established a technology transfer program to flow the benefits of its research to private industry and the U.S. consumer. The lab recently announced a proposed \$300 million construction project to house its MESA program.

In recent years, an increasing number of companies have located regional processing facilities in the Albuquerque MSA. These companies include Baxter Healthcare Corporation (customer payment processing), Citicorp (credit card processing), J.C. Penney (credit processing), MCI Services Marketing (telemarketing), Metropolitan Life (health insurance claims processing), and Southwest Airlines (flight reservations) and most recently Lockheed Martin moved its headquarters for its Advanced Environmental Systems subsidiary from Houston to Albuquerque.

Tourism continues to play a major role in the local economy. Blessed with a dry, mild climate, the County has become a desirable place to live and retire. Despite this mild climate, nearby mountains provide many recreational activities, including cross-country and downhill skiing in the winter, and hunting, camping and fishing during other times of the year. Additionally, there are many other attractions to attract visitors to the area and the County. Because of its transportation, convention and lodging facilities, the County serves as the gateway to New Mexico.

Due to its employment mix, the County has enjoyed a more stable economy than the nation as a whole, and unemployment has typically been well below national levels. The diversification of Sandia National Laboratories, the expansion at Intel and the addition of Sumitomo Sitix should strengthen the manufacturing sector and provide additional economic stability in the future.

THE GOVERNMENT BODY

Bernalillo County was established by the laws of 1876, under the provisions of the Act now referred to as Section 4-1-1 of the New Mexico State Statutes Annotated, 1978 Compilation. The County operates under the commission-manager form of government and provides for public safety, highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. Brief resumes of the County Manager, key financial staff members and the five County Commissioners are as follows:

BERNALILLO COUNTY COMMISSIONERS

Alan B. Armijo, Chair, District 1. Term expires December 2008; first elected, November 2002. Joins the Board of Commissioners after serving as an Albuquerque City Councilman for twelve years. Mr. Armijo has a long and distinguished career in public service. He is currently the Governmental Liaison for Albuquerque Public Schools where he has over twenty-three years of experience as a teacher and coach and 30 years as an educator. He holds a Master and Bachelor's Degree in Education from the University of New Mexico and a certificate from the Harvard John F. Kennedy School of Government Program. He is an advocate for education, youth programs, smart planning for growth and operating a fiscally responsible government.

E. Tim Cummins, Vice-Chair, District 4. Term expires December 2008; first elected November 2000. Attended Albuquerque Public Schools and the University of New Mexico. Has served as a City Councilor of the City of Albuquerque. Mr. Cummins has spent countless hours helping the community and served as one of the seven original trustees for the Endowment Foundation for All Faiths and as a member on the Board of Governors for Goodwill Industries. Occupation: Commercial Real Estate Broker.

Teresa L. Córdova, Commissioner, District 2. Term expires December 2008; Has extensive experience working with residents and community leaders to identify issues and deliver solutions to the South Valley. A professor in Community and Regional Planning at the University of New Mexico, she has taught classes in land use, economic development and community based planning since 1991. Through UNM, she directs the Resource Center for Raza Planning, a student group of planning and policy analysts. She received a Ph.D. from the University of California, Berkeley, is the recipient of the YWCA "Woman on the Move" award and was an Outstanding South Valley Citizen. She also served on the Unification Charter Commission and was former president of the Rio Grande Community Development Corporation

Deanna Archuleta-Loeser, Commissioner, District 3. Term expires December, 2008; actively involved and has focused her efforts on economic development, education and transportation. She is a professor of Sociology at the University of New Mexico and has taught there since 2000. She served as President of the Summit Park Neighborhood Association, giving her a first-hand opportunity to develop the district's vision and direction. She also served as a representative of the Big I Task Force, as a member of the City of Albuquerque Transit Advisory Board, Vice-President of the APS Citizens' Advisory Council, PTA President and Instructional Council Parent Representative for Montezuma Elementary. A New Mexico native, she received her Masters from the University of New Mexico and is currently finishing her Doctoral degree.

Michael Brasher, Commissioner, District 5. Term expires December 2008; actively involved in his community and regularly attends neighborhood association meetings in the district. He is the General Manager of KANW Radio, a noncommercial educational station owned and operated by the Albuquerque Public Schools. He possesses twenty-five years of experience in broadcasting. A

lifelong resident of the Albuquerque community, he is an avid bicyclist and enjoys the native terrain and dry temperate climate.

COUNTY MANAGER AND STAFF

Thaddeus Lucero, County Manager. Graduated from the University of Washington in Seattle with a Bachelor of Arts Degree in Urban Planning in 1981, then attended John F. Kennedy School of Government - Harvard University Program for Senior Executives in July 1996. From 1985-1991, Mr. Lucero worked for the City of Seattle as a Neighborhood Planner and as Economic Development Manager. Mr. Lucero began his career with Bernalillo County as a Senior Zoning Inspector in 1992, and was then promoted to Program Planner in February 1993. Mr. Lucero served as Zoning, Building and Planning Director for Bernalillo County from 1994 to 1997. He was appointed Community Services Division Director on January 5, 1998 and managed the day-to-day operations and long-term objectives for the following departments: Housing, Parks and Recreation and Zoning, Building and Planning. Mr. Lucero was appointed County Manager effective September 20, 2003.

Dan Mayfield, Deputy County Manager for Finance. Joined Bernalillo County as Comptroller in March of 1989. Has progressive managerial experience in accounting and finance since 1972. Mayfield received an MBA from New Mexico Highlands University and a BBA from the University of New Mexico. Mr. Mayfield received CGFM, Certificate # 2254 issued in 1995.

PUBLIC EMPLOYEE'S RETIREMENT

Plan Description. Substantially all of the Bernalillo County full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy. Plan members are required to contribute 9.15-16.3% of their gross salary and the County is required to contribute 9.15-21.25% depending upon the division of the gross covered salary. The contribution requirements of plan members and the County are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The County's contributions to PERA for the years ending June 30, 2004, 2003, and 2002 were \$5,928,824, \$5,547,120 and \$5,481,717, respectively, equal to the amount of the required contributions for each year. The following table outlines the divisions the County participates in and the contributions for the year ending June 30, 2004:

<u>Covered Division</u>	<u>Employee</u>		<u>Employer</u>	
	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>
General-management, blue collar and white collar	13.15%	\$4,205,942	9.15%	\$2,926,568
General-other	9.15%	\$58,336	9.15%	\$66,209
Sheriff	16.30%	\$1,784,253	18.50%	\$2,025,072
Fire	16.20%	\$694,485	21.25%	\$910,975

Source: Bernalillo County

INVESTMENT POLICY OF BERNALILLO COUNTY

INVESTMENTS

Various sections of the New Mexico Statutes Annotated 1978, as amended, control how New Mexico's local governments (including counties, municipalities and school districts) ("Local Governments") may invest funds not immediately necessary for public use. The primary purpose of these laws is to provide for safety of invested principal.

LEGAL INVESTMENTS

Local Governments, with the advice and consent of the body charged with the supervision and control of the Local Government's respective funds, have limited investment power over all sinking funds, or money remaining unexpended from the proceeds of any issue of bonds or other negotiable securities of the Local Government that is entrusted to the local public body's care and custody and all money not immediately necessary for the public use and not deposited in qualified banks, savings and loan associations and credit unions. These funds may only be invested in statutorily authorized investments as follows:

(1) Bonds or negotiable securities of the State of New Mexico or of any county, municipality or school district which has a taxable valuation of real property of at least one million dollars (\$1,000,000) and has not defaulted in the payment of interest or sinking fund obligations or failed to pay any bonds at maturity at any time within the last five years;

(2) Bonds or negotiable securities of the United States including U.S. Treasury bonds, notes or bills;

(3) Other securities issued by the United States government or its agencies or instrumentalities that are backed by the full faith and credit of the United States government, or issued by agencies guaranteed by the United States government, which include Government National Mortgage Association (GNMA) mortgaged backed securities,

BUT DOES NOT INCLUDE Federal National Mortgage Association (FNMA) mortgage backed securities or Federal Home Loan Mortgage Corporation (FHLMC) mortgage backed securities, securities of the Federal Land Bank and the Federal Farm Credit Bank; and

(4) Any bonds or other obligations issued pursuant to the Municipal Housing Law or issued by any public housing authority or agency in the United States, when such bonds or other obligations are secured by a pledge of annual contributions to be paid by the United States government or any agency thereof...provided, however, that nothing contained in the Municipal Housing Law shall be construed as relieving any person...from any duty of exercising reasonable care in selecting securities;

(5) Contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be carried by the investor backed by the United States having a market value of at least one hundred two percent of the contract. The collateral securing such contracts with the foregoing financial institutions must be shown on the financial institution's books as being the property of the investing Local Government and the designation of the collateral must be contemporaneous with the investor;

(6) A short term (less than thirty (30) days) investment fund created in the state treasury. The fund consists of all deposits from governmental entities and that are placed in the custody of the state treasurer for short-term investment purposes pursuant to law. The State treasurer shall invest the fund in permitted investments as set forth above and may elect to have the short-term investment fund consolidated for investment purposes with the state funds under the control of the State treasurer; provided that accurate and detailed accounting records are maintained for the account of each participating local government or entity and that a proportionate amount of interest earned is credited to each of the separate government accounts. The funds shall be invested to achieve its objective, which is to realize the maximum return consistent with safe and prudent management. At the end of each month, all interest earned from investment of the short-term investment fund shall be distributed by the state treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of the time the amounts in the funds were invested. No fees or transfer expenses are charged to the participating entities who invest in the short-term investment fund.

CURRENT INVESTMENTS

As of the date of this Official Statement, the County's investible funds were invested only in statutorily permitted investments set forth above.

NO FUNDS OF THE COUNTY ARE INVESTED IN DERIVATIVE SECURITIES, I.E., SECURITIES WHOSE RATE OF RETURN IS DETERMINED BY REFERENCE TO SOME OTHER INSTRUMENT, INDEX OR COMMODITY.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF THE COUNTY

2004 AUDIT REPORT

Meyners + Company, LLC, Certified Public Accountants & Consultants, of Albuquerque, New Mexico and the office of the State Auditor conducted the audit of the County's general-purpose financial statements and the combining and individual fund and account group financial statements for the fiscal year ended June 30, 2004.

See Exhibit C, "State of New Mexico County of Bernalillo Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2004" for the County's complete Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2004.

BASIS OF PRESENTATION – FUND ACCOUNTING

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into the following generic fund types:

Governmental Fund Types:

(1) *General Fund.* The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. It is funded primarily through property, gross receipts and other miscellaneous taxes.

(2) *Debt Service Fund.* The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

(3) *Capital Project Funds.* The Capital Project Funds are used to account for financial resources to be used for the acquisition of major capital facilities and related costs. Capital project funding is comprised of bond proceeds, federal and state grants and/or current federal funds.

(4) *Special Revenue Funds.* The County receives funds from various sources, the expenditure of which is legally restricted to specified purposes. These revenues and expenditures are accounted for in these funds.

Proprietary Fund Type-Enterprise Funds. Enterprise funds are established to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges; and (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control and accountability.

Fiduciary Fund Type-Agency Funds. Agency funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

FIXED ASSETS AND LONG-TERM LIABILITIES

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable sources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable sources” during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. No depreciation has been provided on general fixed assets. All fixed assets are valued at historical cost, except for donated assets which are valued at their fair market value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

The two account groups are not “funds.” They are concerned only with the measurement of financial position. They are not involved with the measurement of the results of operations.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Because they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. If the amounts of revenues cannot be reasonably estimated or realization is not assured, or if the revenues will not be available to pay current liabilities, they are not recorded as a revenue in the current year. Under these accounting policies, property taxes collected but unremitted to the County and expenditures in excess of grant revenues are accrued as receivables at the year end.

[Remainder of page intentionally left blank]

FINANCIAL INFORMATION

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets				
	Expenses	Charges for Service	Operating		Primary Government			Component Unit Redevelopment Corporation	
			Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total		
Primary Government:									
Government activities									
General government	\$ 37,501,192	\$ 16,687,785	\$ 504,723	\$ 6,355	\$ (20,302,329)	\$ -	\$ (20,302,329)	\$ -	\$ -
Public safety	32,294,831	-	356,530	21,216,205	(10,722,096)	-	(10,722,096)	-	-
Culture and recreation	82,328,864	-	8,503,339	103,493	(73,722,032)	-	(73,722,032)	-	-
Health and welfare	11,409,199	97	841,768	1,644,695	(8,922,639)	-	(8,922,639)	-	-
Public works	18,785,416	-	11,509,565	873,929	(6,401,922)	-	(6,401,922)	-	-
Interest and other charges	14,651,079	-	-	-	(14,651,079)	-	(14,651,079)	-	-
Total governmental activities	196,970,581	16,687,882	21,715,925	23,844,677	(134,722,097)	-	(134,722,097)	-	-
Business-like activities:									
Solid waste	3,353,335	3,054,698	148,490	-	-	(150,147)	(150,147)	-	-
Housing Authority	1,672,735	1,528,126	-	-	-	(144,609)	(144,609)	-	-
Seybold Village Handicapped Project	126,954	31,563	-	-	-	(95,391)	(95,391)	-	-
Regional Juvenile Detention Center	1,275,350	1,331,114	-	-	-	55,764	55,764	-	-
Total business-like activities	6,428,374	5,945,501	148,490	-	-	(334,383)	(334,383)	-	-
Total primary government	\$ 203,398,955	\$ 22,633,383	\$ 21,864,415	\$ 23,844,677	\$ (134,722,097)	\$ (334,383)	\$ (135,056,480)	\$ -	\$ -
Component unit:									
Redevelopment Corporation	\$ 392,493	\$ 97,643	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (294,850)

Continuation of table from previous page

	Governmental Activities	Business-Type Activities	Total	Redevelopment Corporation
General Revenues:				
Property taxes	94,043,897	-	94,043,897	
Gross receipts taxes	38,725,557	-	38,725,557	
Motor vehicle taxes	3,547,419	-	3,547,419	
Cigarette taxes	6,477	-	6,477	
Gas taxes	1,553,716	-	1,553,716	
Investment income	5,184,585	5,175	5,189,760	2,538
Operating grants	-	708,896	708,896	230,634
Miscellaneous revenue	11,332,291	119,379	11,451,670	
Transfers	200,000	(200,000)	-	
Total general revenues and transfers	154,593,942	633,450	155,227,392	233,172
Change in net assets	19,871,845	299,067	20,170,912	(61,678)
Beginning net assets	325,034,598	3,931,578	328,966,176	686,061
Prior period adjustment	1,296,260	(171,336)	1,124,924	-
Beginning net assets - as adjusted	326,330,858	3,760,242	330,091,100	686,061
Ending net assets	<u>\$ 346,202,703</u>	<u>\$ 4,059,309</u>	<u>\$ 350,262,012</u>	<u>\$ 624,383</u>

Source: Audited Financial Statements for year ended June 30, 2004

REVENUES , EXPENDITURES AND FUND BALANCES

	Actual 6/30 2001	Actual 6/30 2002	Actual 6/30 2003
<u>Revenues</u>			
Property tax – recurring	57,810	66,757	69,807
Property tax – nonrecurring	-	-	-
Gross receipts tax	30,556	31,057	33,187
Intergovernmental	1,738	1,292	3,648
Licenses, permits and fees	872	1,167	2,690
Charges for services	3,657	4,300	7,532
Investment income	3,264	2,645	2,395
Public works revenue	-	-	3,027
Miscellaneous	1,556	1,286	1,300
Total revenues	\$99,453	\$108,504	\$123,586
<u>Expenditures</u>			
General government	35,547	35,976	34,336
Public safety	47,942	50,037	58,766
Health and welfare	4,089	5,846	2,946
Culture and recreation	8,285	8,373	9,015
Public works	-	-	9,259
Debt service	-	51	215
Total expenditures	\$95,863	\$100,283	\$114,537
Excess revenues over expenditures	3,590	8,221	9,049
<u>Other funding sources (uses)</u>			
Operating transfers in	5,945	1,475	-
Operating transfers (out)	(8,434)	(6,250)	(7,775)
Excess (deficiency) of revenues and other funding sources over expenditures and other funding uses	1,101	3,446	1,274
Residual equity transfer in	-	-	-
Prior period adjustment	(1,044)	(2,803)	-
Beginning fund balance	38,694	38,751	40,706
Ending fund balance	\$38,751	\$39,394	\$41,980
Detail of ending fund balance			
Reserved	5,708	4,121	7,361
Designated for subsequent year's expenses	33,043	35,273	34,619
Unreserved fund balance	-	-	-

UNDERTAKING TO PROVIDE ONGOING DISCLOSURE

The County has made a written undertaking for the benefit of the holders of the Bonds required by Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 C.F.R. Part 240, § 240, 15c2-12) (the “Rule”).

The County undertakes to provide the following information:

- (1) Annual Financial Information;
- (2) Audited Financial Statements, if any; and
- (3) Material Event Notices.

The County shall, while any Bonds are outstanding, provide the Annual Financial Information on or before March 31 of each year (the “Report Date”), beginning in 2006, to each then existing NRMSIR and the SID, if any. The County may adjust the Report Date if the County changes its fiscal year by providing written notice of the change of fiscal year and the new Report Date to each then existing NRMSIR and the SID, if any; provided that the new Report Date shall be 270 days after the end of the new fiscal year and provided further that the period between the final Report Date relating to the former fiscal year and the initial Report Date relating to the new fiscal year shall not exceed one year in duration. It shall be sufficient if the County provides to each then existing NRMSIR and the SID, if any, the Annual Financial Information by specific reference to documents previously provided to each NRMSIR and the SID, if any, or filed with the Securities and Exchange Commission and, if such a document is a final official statement within the meaning of the Rule, available from the Municipal Securities Rulemaking Board.

If not provided as part of the Annual Financial Information, the County shall provide the Audited Financial Statements when and if available while any Bonds are outstanding to each then existing NRMSIR and the SID, if any.

If a Material Event occurs while any Bonds are outstanding, the County shall provide a Material Event Notice in a timely manner to the Municipal Securities Rulemaking Board and the SID, if any. Each Material Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds.

The County shall provide, in a timely manner, to the Municipal Securities Rulemaking Board and to the SID, if any, notice of any failure by the County while any Bonds are outstanding to provide to each then existing NRMSIR and the SID, if any, Annual Financial information on or before the Report Date.

The following are the definitions of the capitalized terms used in this section:

“Annual Financial Information” means the financial information (which shall be based on financial statements prepared in accordance with generally accepted accounting principals (“GAAP”) for governmental units as prescribed by the Governmental Accounting Standards Board (“GASB”) or operating data with respect to the County, provided at least annually, of the type included in this Official Statement with respect to the Bonds; which Annual Financial Information may, but is not required to, include Audited Financial Statements.

“Audited Financial Statements” means the County’s annual financial statements, prepared in accordance with GAAP for governmental units as prescribed by GASB, which financial statements shall have been audited by such auditor as shall be then required or permitted by the laws of the State.

“Material Event” means any of the following events, if material, with respect to the Bonds.

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves respecting financial difficulties;
- (3) Non-payment related defaults;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (7) Modifications to rights of security holders;
- (8) Bond calls;
- (9) Defeasance;
- (10) Release, substitution, or sale of property securing repayment of the securities; and
- (11) Rating changes.

“Material Event Notice” shall mean written or electronic notice of a Material Event.

“NRMSIR” means a nationally recognized municipal securities information repository, as recognized from time to time by the Securities and Exchange Commission for the purposes referred to in the Rule.

“SID” means a state information depository as operated or designated by the State as such for the purposes referred to in the Rule.

Unless otherwise required by law and subject to technical and economic feasibility, the County shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the County’s information.

The continuing obligation of the County to provide Annual Financial Information, Audited Financial Statements, if any, and Material Event Notices shall terminate immediately once Bonds no longer are Outstanding. The undertaking shall be null and void in the event that the County delivers to each then existing NRMSIR and the SID, if any, an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the undertaking or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds. The undertaking may be amended without the consent of the Bondholders, but only upon the delivery by the County to each then existing NRMSIR and the SID, if any, of the proposed amendment and an opinion of nationally recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect compliance by the County with the Rule.

Any failure by the County to perform in accordance with the undertaking shall not constitute an Event of Default; however, the bondholders may sue to enforce performance of the undertaking.

LITIGATION

At the time of the original delivery of the Bonds, the County will deliver a certificate to the effect that no litigation, administrative action, or proceeding is pending or, to the knowledge of the appropriate County officials, threatened, restraining or enjoining, or seeking to restrain or enjoin, the issuance and delivery of the Bonds, or contesting or questioning the proceedings and authority under which the Bonds have been authorized and are to be issued, sold, executed or delivered, or the validity of the Bonds.

TRANSCRIPT AND CLOSING DOCUMENTS

A complete transcript of proceedings will be delivered by the County when the Bonds are delivered. The County will at that time also provide a certificate executed by the County Commission's Chair relating to the accuracy and completeness of this Official Statement.

LEGAL MATTERS

The County has engaged Hughes & Strumor, Ltd. Co., Attorneys at Law, Albuquerque, New Mexico, as Bond Counsel in connection with the issuance of the Bonds. Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status of the interest thereof (*see* "**TAX EXEMPTION**" below) are subject to the approving legal opinion of Bond Counsel. A signed copy of its opinion, dated the date of the original delivery of the Bonds, will be delivered at the time of original delivery of the Bonds. Certain other matters will be passed upon by Hughes & Strumor, Ltd. Co. as disclosure counsel, and for the Underwriter by Virtue, Najjar and Brown, PC, as counsel to the Underwriter.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Bonds. The County has covenanted in the Bond Ordinance to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes pursuant to Section 103(a) of the Code.

In the opinion of Bond Counsel, under existing law, and assuming compliance with the aforementioned covenant, interest on the Bonds is excluded from gross income for federal income tax purposes. Bond Counsel is also of the opinion that the Bonds are not "private activity bonds" within the meaning of Section 57(a)(5) of the Code; therefore, the interest on the Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code for individuals and corporations. Interest on the Bonds owned by corporations will, however, be taken into account in determining the alternative minimum tax imposed by Section 55 of the Code on seventy-five percent (75%) of the excess of adjusted current

earnings over alternative minimum taxable income (determined without regard to this adjustment and the alternative tax net operating loss deduction).

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Bonds from gross income for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state (other than the State of New Mexico) or local tax law consequences with respect to the Bonds, or the interest thereon.

Bond Counsel is of the opinion that the interest on the Bonds is exempt from tax imposed by the State of New Mexico.

RATING

Moody’s Investors Service, Inc. has assigned an underlying municipal bond rating of “Aa3” to the Bonds. Standard and Poor’s has assigned an underlying municipal bond rating of “AA” to the Bonds. Fitch Ratings has assigned an underlying municipal bond rating of “AA” to the Bonds. Such ratings are not based upon a credit evaluation of the County. The ratings reflect only the view of such rating agencies and are not a recommendation to buy, sell, or hold the Bonds. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely, if in the judgment of the rating agency such action is warranted. Any such withdrawal or downward revision of the ratings may have an adverse effect on the market price or marketability of the affected Bonds.

An explanation of the significance of the above ratings may be obtained only from each rating agency.

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. A revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by George K. Baum & Co. (the “Underwriter”). The Bond Purchase Agreement provides that the Underwriter will purchase all of the Bonds, if any are purchased. In connection with the issuance of the Bonds, the Underwriter will purchase the Bonds at a price of \$48,001,626.85 (the par amount of the Bonds, plus an original issue premium of \$4,674,359.55, and less an Underwriter’s discount of \$362,732.70).

MISCELLANEOUS

The references herein to the Bond Ordinance, statutes, resolutions and other documents are brief outlines or partial excerpts of certain provisions thereof. Such outlines or excerpts do not purport to be complete, and reference is made to such documents for full and complete statements of such provisions. Complete copies of such documents and additional information can be obtained from the County or the Underwriter at the addresses listed inside the front cover of this Official Statement.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or owners of any of the Bonds.

[Remainder of page intentionally left blank]

FORWARD-LOOKING STATEMENTS

This Official Statement contains statements relating to the County’s future financial plans, receipt of future revenues and other matters that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words “estimate,” “intend,” “anticipate,” “expect,” and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

[Remainder of page intentionally left blank]

COUNTY APPROVAL OF OFFICIAL STATEMENT

This Official Statement has been authorized and approved by the County, is considered to be true, complete and correct in all material aspects, and does not contain any untrue statements of material fact or omit to state a material fact necessary to make the statements made herein, in light of the circumstances under which they were made, not misleading.

**BERNALILLO COUNTY, NEW MEXICO
BOARD OF COUNTY COMMISSIONERS**

**By: /s/ Alan B. Armijo
Chair**

APPENDIX A
FORM OF BOND COUNSEL OPINION

APPENDIX A

[FORM OF BOND COUNSEL OPINION]

October __, 2005

Board of County Commissioners
Bernalillo County
One Civic Plaza
Albuquerque, New Mexico 87102

**RE: \$43,690,000 BERNALILLO COUNTY, NEW MEXICO GROSS RECEIPTS TAX
REFUNDING REVENUE BONDS, SERIES 2005**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Bernalillo County, New Mexico (the "Issuer") of its Gross Receipts Tax Refunding Revenue Bonds, Series 2006, dated October __, 2005, in the aggregate principal amount of \$43,690,000 (the "Bonds"), pursuant to Sections 4-62-1 through 4-62-10, Section 4-37-1 and Section 7-20E-9, NMSA 1978, as amended (collectively, the "Act"), a Bond Ordinance of the Issuer adopted September 13, 2005 and a Resolution of the Issuer adopted September 27, 2005 (the "Bond Legislation"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the representations of the Issuer contained in the Bond Legislation and in the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

In connection with the issuance of this opinion, we have assumed the authenticity and genuineness of all signatures on original documents and the conformity of all copies to the original documents.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Issuer is duly created and validly existing as a county and political subdivision of the State of New Mexico with the power and authority to adopt the Bond Legislation, perform the agreements on its part contained therein, and issue the Bonds.

2. The Bond Legislation has been duly adopted by the Issuer and constitutes a valid and binding special, limited obligation of the Issuer enforceable upon the Issuer.

3. Pursuant to the Act, the Bond Legislation creates a valid lien on the Pledged Revenues pledged by the Bond Legislation for the security of the Bonds.

4. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding special, limited obligations of the Issuer, payable solely from the sources provided therefor in the Bond Legislation.

5. The interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in the preceding sentence are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The interest on the Bonds is exempt from taxation by the State of New Mexico under present State of New Mexico laws.

7. With regard to the Official Statement, without having undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement, but on the basis of our telephone conferences with the representatives of the County and our examination of the Official Statement and documents referenced in the Official Statement that we believe are material to this opinion, nothing has come to our attention which leads us to believe that the Official Statement contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading in any material respect, except that we have not been engaged, or undertaken to review the accuracy, completeness or sufficiency of the financial or statistical information contained in the exhibits to the Official Statement or other statistical and financial information contained in the Official Statement and therefore we express no opinion thereon, (except that we consent to the inclusion of a form of this opinion in the Official Statement).

The rights of the holders of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principals, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

HUGHES & STRUMOR, LTD. CO.

APPENDIX B
CERTAIN STATISTICAL INFORMATION

AREA ECONOMIC INFORMATION

POPULATION

<u>Year</u>	<u>Bernalillo County</u>	<u>Albuquerque MSA</u>	<u>State</u>
1960	262,199	292,500	951,023
1970	315,774	353,800	1,017,055
1980	420,262	485,500	1,303,303
1990	480,577	589,131	1,515,069
2000	556,678	712,738	1,819,046
2005 est.	562,678	780,614	1,829,146

Source: U.S. Department of Commerce, Bureau of the Census, except as indicated in footnotes.

PER CAPITA PERSONAL INCOME - BERNALILLO COUNTY

<u>Year</u>	<u>Bernalillo County</u>	<u>New Mexico</u>	<u>U.S.A.</u>	<u>% of N.M.</u>	<u>% of U.S.</u>
2003	\$30,064	\$24,995	\$31,472	120.28%	95.5%
2002	\$29,432	\$24,228	\$30,804	121.7%	95.5%
2001	\$29,658	\$24,088	\$30,575	123.0%	95.3%
2000	\$27,046	\$22,135	\$29,845	122.1%	88.7%
1999	\$25,677	\$21,042	\$29,847	122.0%	86.0%
1998	\$25,154	\$20,656	\$27,939	121.7%	90.0%
1997	\$24,052	\$19,698	\$26,883	122.1%	89.4%
1996	\$23,413	\$18,964	\$25,334	123.4%	92.4%

Source: U.S. Department of Commerce, Bureau of Economic Analysis (released September 2002).

NON-AGRICULTURAL EMPLOYMENT - ALBUQUERQUE MSA*

	2000^r	2001^r	2002^r	2003^r	2004^p
Albuquerque MSA¹					
Total Employment	357.4	362.2	361.7	363.1	370.8
Natural Resources & Mining & Construction	23.6	24.8	23.4	24.1	25.8
Manufacturing	27.6	27.1	24.8	23.4	22.6
Trade, Transportation & Utilities	66.2	66.0	65.9	65.7	66.2
Wholesale Trade	14.2	13.8	13.4	13.0	12.8
Retail Trade	41.4	41.6	41.8	42.2	42.9
Transp., Warehousing & Utilities	10.7	10.6	10.6	10.5	10.5
Information	11.1	11.4	11.0	10.2	9.4
Financial Activities	19.4	19.6	18.9	18.8	19.2
Professional & Business Services	58.7	58.6	57.8	57.5	59.2
Educational & Health Services	37.3	39.3	41.3	42.7	45.2
Leisure & Hospitality	33.6	34.2	34.8	35.8	36.3
Other Services	10.9	11.1	11.5	11.7	11.9
Government	69.0	70.2	72.4	73.4	74.9

r Revised. *p* Preliminary. **(1)** Bernalillo, Sandoval and Valencia counties.

Note: Industry classifications are based on the North American Industry Classification System (NAICS).

Source: New Mexico Dept. of Labor, Economic Research and Analysis.

Table prepared by: Bureau of Business and Economic Research, University of New Mexico.

CIVILIAN LABOR FORCE - BERNALILLO COUNTY

Bernalillo County	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Labor Force	291,622	295,489	297,111	300,353	305,411
Employment	279,944	283,298	282,739	284,668	289,729
Unemployment	11,678	12,191	14,372	15,685	15,682
Percentage Unemployment – Bern. County	4.0%	4.1%	4.8%	5.2%	5.1%
Percentage Unemployment – New Mexico	5.0%	4.9%	5.5%	5.9%	5.7%
Percentage Unemployment – United States	4.0%	4.7%	5.8%	6.0%	5.5%

MAJOR EMPLOYERS

ORGANIZATION	EMPLOYEES	DESCRIPTION
Kirtland Air Force Base (Civilian)	17,125	Air Force Materiel Command
University of New Mexico	15,832	Educational Institution
Albuquerque Public Schools	11,700	Educational Institution
Sandia National Labs	7,700	Research Development
City of Albuquerque	6,937	Government
State of New Mexico	5,660	Government
Presbyterian Hospital	5,800	Hospital
Kirtland AFB (Military)	5,240	Defense
Lovelace Sandia Health Systems	5,400	Health Care
Intel Corporation	5,200	Semiconductor Manufacturer
UNM Hospital	4,380	Hospital
U.S. Postal Service	2,200	Government
PNM Electric & Gas Services	1,790	Utilities Provider
Albuquerque Technical-Vocational Institute	1,850	Educational Institution
Veterans Affairs Medical Center	1,700	Hospital
Bernalillo County	1,780	Government
Qwest Communications	1,400	Telecommunications Provider
Sandia Casino	1,644	Indian Gaming
CitiCard	1,250	Financial Institution
Honeywell Defense Avionics Systems	1,150	Aircraft Avionics Manufacturer
Isleta Gaming Palace	1,100	Indian Gaming
Albuquerque Publishing Co.	1,200	Newspaper Publisher
Bank of America	1,360	Financial Institution
Sprint PCS	900	Customer Service Center

Source: Albuquerque Economic Development, Inc. 2005 Survey

APPENDIX C

**STATE OF NEW MEXICO
COUNTY OF BERNALILLO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2004**

(THIS PAGE LEFT BLANK INTENTIONALLY)

**STATE OF NEW MEXICO
COUNTY OF BERNALILLO**

**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT
Fiscal Year Ended June 30, 2004**

**COUNTY OF BERNALILLO GOVERNMENT
Board of County Commissioners
Thaddeus Lucero, County Manager
Daniel J. Mayfield, Deputy County Manager**

**Prepared by:
The Budget and Finance Division**

COUNTY OF BERNALILLO, NEW MEXICO

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Letter of Transmittal	i
Organizational Chart	vii
Principal Officials	viii
Contributors	ix
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	23
Statement of Activities	24
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet – Governmental Funds	25
Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Assets	26
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	28
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual: General Fund	29
Proprietary Funds:	
Statement of Net Assets – Proprietary Funds	30
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	31
Statement of Cash Flows – Proprietary Funds	32
Fiduciary Funds:	
Statement of Fiduciary Net Assets – Fiduciary Funds	33
Component Unit – Redevelopment Corporation:	
Statement of Cash Flows	34
Notes to the Financial Statements	35

County of Bernalillo

State of New Mexico

BOARD OF COUNTY COMMISSIONERS

ALAN B. ARMILLO, CHAIR
DISTRICT 1
E. TIM CUMMINS, VICE CHAIR
DISTRICT 4
STEVE D. GALLEGOS, MEMBER
DISTRICT 2
TOM RUTHERFORD, MEMBER
DISTRICT 3
MICHAEL BRASHER, MEMBER
DISTRICT 5
THADDEUS LUCERO, COUNTY MANAGER



MARK J. CARRILLO, ASSESSOR
MARY HERRERA, CLERK
MERRI RUDD, PROBATE JUDGE
DARREN P. WHITE, SHERIFF
ALEX A. ASEYTA, JR., TREASURER

ONE CIVIC PLAZA, N.W.
ALBUQUERQUE, NEW MEXICO 87102
ADMINISTRATION (505) 768-4000
COMMISSION (505) 768-4217
FAX (505) 768-4323

November 12, 2004

Board of County Commissioners (Current)

Alan B. Armijo, Chair
E. Tim Cummins, Vice Chair
Steve D. Gallegos, Member
Tom Rutherford, 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, 2004. The responsibility for the accuracy of the information presented and the completeness and fairness of presentation, including accompanying notes and disclosures rests with County Management. As indicated by the independent auditors' report, the financial statements fairly present the financial position and the results of County operations as measured by the financial activity of its various funds. The purpose of the CAFR is to provide citizens, investors, grantor agencies, regulating agencies and other interested parties with reliable financial information about the County.

The County prepares the CAFR using the financial reporting requirements as prescribed by the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* (GASB 34). The GASB Statement requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

The County's CAFR consist of four major sections:

1. The Introductory Section includes this letter of transmittal that provides information about the organizational structure of the County, the County's economy, internal control structure, budgetary controls, cash management, and risk management.
2. The Financial Section is prepared in accordance with GASB 34 requirements by including the MD&A and the Basic Financial Statements including notes. The Basic Financial Statements include government-wide financial statements that present an overview of the County's entire financial operations and the fund financial statements that present the financial information of each of the County's major funds, as well as non-major governmental, proprietary, fiduciary and other funds. Also included in this section is the Independent Auditors' Report on the financial statements and schedules.
3. The Statistical Information Section contains tables that include general information about the County and the comparative data for prior years.
4. Single Audit Information includes the Schedule of Expenditures of Federal Awards as required by the Single Audit Act and the related findings and recommendations by the County's independent auditors.

The CAFR of the County includes all government activities, organizations and functions for which the County is financially accountable. The criteria for determining the governmental activities and potential component units to be reported in the County's combined financial statements are set forth in Note I. A., Page 35, to the financial statements. Based on the criteria, this report includes a wide variety of services such as public safety, highways and streets, sanitation, health and social services, culture and recreation, public improvements, planning and zoning and general administrative services. Additionally, the Bernalillo County Housing Redevelopment Corporation is included, as a component unit, in this report. Excluded from this report are the Bernalillo County Mental Health and Retardation Center and University Hospital/Bernalillo County Medical Center because they do not meet the criteria for inclusion as component units as defined in Note I. A. to the financial statements.

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 556,678 residents (2000 Census), the County ranks 100th in population of the nation's 3,141 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 four elected County officials: the Treasurer, Assessor, Clerk, 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 with the approval 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 represent object class by department.

County management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required in order to assess the expected benefits and related costs of internal control structure policies and procedures.

All internal control evaluations occur within this framework. The internal control structure is designed with the objective of providing the Board with reasonable assurance that assets are safeguarded against loss resulting from unauthorized use or disposition and that transactions are executed in accordance with the Board's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

Bernalillo County, with 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 2004 *Sperling's BestPlaces*, the Albuquerque MSA ranked 12th overall out of the top 200 metro areas in the country. Albuquerque MSA in the Cost of Doing Business category ranked number one (based on cost of labor, energy, taxes and office space), 42nd in Job Growth category, and 39th in the Educational Attainment category (based on share of populations over age 25 with a bachelor's degree or higher).

According to the University of New Mexico's Bureau of Business and Economic Research (BBER), the Albuquerque MSA economy finally picked up the pace in the second quarter of 2004 following a slow recovery from mild recession in the last half of 2001 and the first half of 2002. For the first time in almost three years, non-farm employment growth exceeded 1.0 percent, posting a 1.6% gain (5,800 net new jobs). Personal income growth also appeared relatively strong, reaching an estimated 5.9% in the second quarter of 2004. The second quarter unemployment rate was 4.8%, down almost a full percentage point from the 5.7% rate a year

ago. The impetus for the second quarter surge came from several sources, including the employment sectors enjoying significantly higher growth in the second quarter than in the first quarter of the year. Natural resources, mining, and construction employment growth increased to 5.2 % in the second quarter from 3.7% in the first.

New housing units were slightly lower in the Albuquerque MSA. Throughout the Albuquerque MSA single-family housing units were down .6% according to the second quarter 2004 *Albuquerque Metropolitan Housing Digest*, published by the Home Builders Association of Central New Mexico. During the second quarter the total value of contracts awarded for new construction increased 5.8%, compared to a year ago. Residential contracts jumped 21%, non-residential building contracts plunged 25.4%, and contracts for other than buildings leaped 25.7%.

Several employment sectors, manufacturing, wholesale trade, and information, continued to decline. These three sectors, accounting for about twelve percent of Albuquerque MSA employment, have each been in the decline mode for the last two years. Manufacturing has been subject to extensive layoffs and plant closures for several years, the most recent being the closings of Philips Semiconductors and Honeywell ACS with the loss of almost 800 jobs. Manufacturing employment dropped another 3.4% during the second quarter of 2004. Retail trade employment growth increased to 1.5% in the second quarter of 2004 from non-growth in the preceding period, a substantial increase for so large a sector, and a major contribution to total employment growth. Local government was another sector with accelerating employment growth during the second quarter of 2004, posting a 3.2% increase following a 2.0% gain in the preceding quarter. The largest contributor of the number of jobs was in the educational services, health care and social assistance sector which added 2,133 employees, a 5% gain.

Capital Improvements Program

Each year the Board of County Commissioners updates the Capital Improvements Program (CIP) in order to plan, both long and short range financing for the County's capital projects. The CIP process provides for the development and submittal of requests for the annual and six-year requests for the Capital Improvements Program. A wide range of public facilities and equipment is considered in the CIP. There are statutory requirements that provide for design, construction, major repair, reconstruction or replacement of facilities such as buildings, jails, courthouses, roadways, bridges, parks, and some heavy equipment. The County can use several types of funding for the CIP that includes General Obligation Bonds, Revenue Bonds, Special Assessment District Bonds, Federal grants and State grants and appropriations.

Citizen involvement is solicited to determine and prioritize the needs of the County by holding public meetings. The Board of County Commissioners holds periodic advertised meetings at various locations within each Commission District to solicit public input and discuss the public's requests. Capital improvement projects selected by the Board and adopted in the CIP that are to be funded by General Obligation Bonds are placed on the ballot in the next General Election. The General Obligation Bond schedule is based on a two-year cycle and issuance is currently limited to \$16 million dollars by the Board of County Commissioners. Other Capital improvement projects are included in the State of New Mexico Infrastructure Program for funding consideration.

Tax Structure

Taxable property valuations were \$9.633 billion in 2004, a \$349 million increase from the previous year. Current property tax collections are 95.40% of the levy, compared to 94.82% in the prior year. The property tax burden has shifted significantly to residential property since the current tax system was put in place in the mid-1980s. In 1986 non-residential property comprised 46% of the net taxable valuation, but today in the wake of several property revaluations, this figure has dropped to 29%. In the 2003 tax year, the property base (valuations) grew 3.8%. Property revaluations represented a 1.1% increase. New construction grew by 2.7%.

Tax on revalued property is limited by the yield control formula. New construction represents a source of new tax revenue for the County. The State of New Mexico's yield control adjustment limits the tax increase from existing property to five percent or the cost of living factor whichever is less. This year the adjustment was limited to 1.2% percent for existing properties. Future increases in residential property tax values will be limited to three percent until the property is sold. As a result, mill levies are expected to increase and the County's bonding capacity will be affected. Allocation of the mill rate for fiscal year 2004 (tax year 2003) and the prior year is based on the following:

Operational:	<u>2004</u>	<u>2003</u>
Residential	7.007	5.918
Non-residential	11.600	10.520
Debt Service	.830	.950
Open Space	.250	.250
Judgement	.067	.000

The County gross receipt tax rate is 5.375% as of June 30, 2004. There was an increase of approximately 5.6% in gross receipts tax revenue in fiscal year 2004 compared to an increase of 6.3% percent in the previous year. The breakdown and sources of the gross receipt tax rate are as follows:

	<u>Tax Rate</u>	<u>Percent</u>
State General Fund	5.000	93.1%
County Wide	0.250	4.6%
County Environmental (outside City limits)	0.125	2.3%

Additional information about revenues, tax rates, and levies is presented in the statistical section of this report.

CASH MANAGEMENT AND INVESTMENTS

Cash temporarily idle during the year was invested in flexible repurchase agreements, the New Mexico State Treasurer's Investment Pool, certificates of deposit, Government National Association (GNMA) securities, and Private Export Funding Corporation securities as authorized by New Mexico State Statute and the County's investment policy. It is the County's policy to minimize investment risk by investing in instruments that are insured, collateralized, or backed

by the full faith and credit of the U.S. Government while seeking to obtain a competitive yield on the total portfolio.

RISK MANAGEMENT

Bernalillo County operates a Risk Management program within the Budget and Finance Division. This program has an aggressive loss control and safety program. Through claims control efforts and the safety program, the County has been successful in holding insurance premiums to a moderate increase during the past year. The County is a member of the Workers' Compensation and Multi-line Insurance Pools administered by the New Mexico County Insurance Authority. The Workers' Compensation Pool provides coverage for all Bernalillo County employees, including temporary and part-time workers. The premium depends upon the total payroll and loss experience specific to each County. The pools are authorized by joint powers agreements and are funded entirely by member contributions.

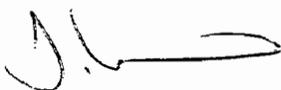
INDEPENDENT AUDIT

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. The audit for the fiscal year ended June 30, 2004 was performed by the firm of Meyners and Company, LLC. 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.

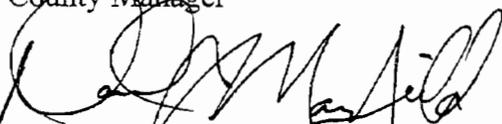
ACKNOWLEDGEMENTS

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 their stewardship in conducting the financial operations of the County in a responsible and progressive manner.

Sincerely,

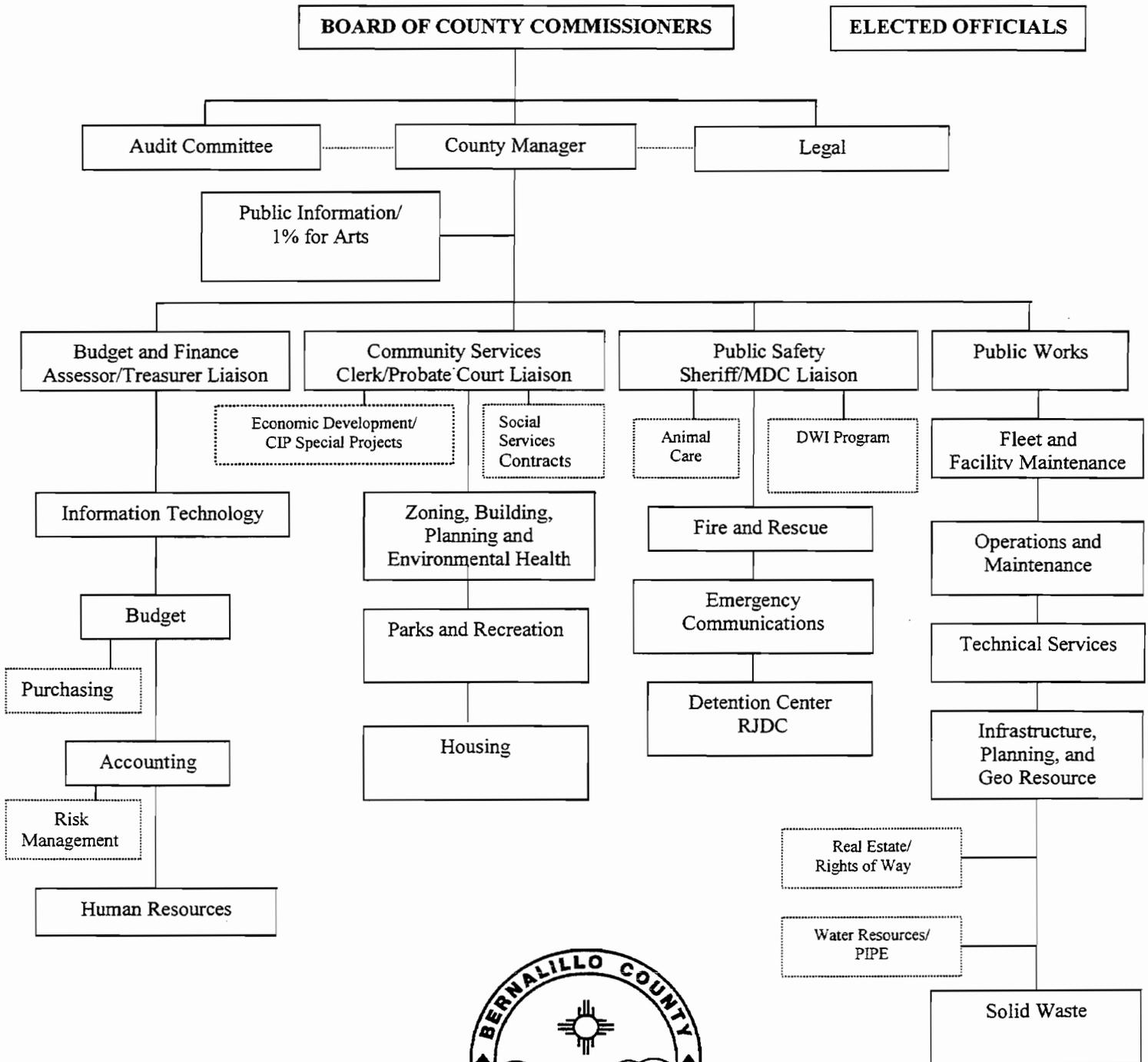


Thaddeus Lucero
County Manager



Daniel J. Mayfield
Deputy County Manager – Budget and Finance Division

BERNALILLO COUNTY ORGANIZATIONAL CHART



COUNTY OF BERNALILLO

PRINCIPAL OFFICIALS

June 30, 2004

COUNTY COMMISSIONERS

Alan B. Armijo, Chair	District 1
E. Tim Cummins, Vice Chair	District 4
Steve D. Gallegos, Member	District 2
Tom Rutherford, Member	District 3
Michael Brasher, Member	District 5

COUNTY ELECTED OFFICIALS

Darren P. White	County Sheriff
Alex A. Abeyta, Jr.	County Treasurer
Mary Herrera	County Clerk
Mark J. Carrillo	County Assessor
Merri Rudd	Probate Judge

COUNTY MANAGER

Thaddeus Lucero

Budget and Finance Division

Daniel J. Mayfield, CGFM, Deputy County Manager
Teresa Byrd, Budget Director
Gregory Stricklin, CPA, Accounting Director

COUNTY OF BERNALILLO, NEW MEXICO

CONTRIBUTORS

June 30, 2004

Daniel J. Mayfield, CGFM
Deputy County Manager

Stella Lujan, CPA
Finance Systems Director

Financial Reporting Personnel

Gregory Stricklin, CPA
Accounting Director

Bonnie Ulibarri-Romero, CPA
Financial Administrator

Ray Garcia
Financial Administrator

Jeff P. Lovato, MBA
Financial Administrator

Larry Herrera
Accounting Officer

Cindy Torres
Accounting Officer

Leticia Carreon
Accounting Senior

Jessie Fairbanks
Accounting Senior

Anita Montoya
Accounting Senior





MEYNER'S +
COMPANY, LLC
<i>Certified Public Accountants</i>
<i>Consultants to Business</i>
500 Marquette NW, Suite 800
Albuquerque, NM 87102
P 505/842-8290
F 505/842-1568
E cpa@meyners.com

INDEPENDENT AUDITORS' REPORT

The Board of County Commissioners
 County of Bernalillo and
 Mr. Domingo P. Martinez, CGFM
 New Mexico State Auditor

We have audited the accompanying basic financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Bernalillo, New Mexico (County) as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the County's nonmajor governmental, fiduciary, and nonmajor enterprise funds presented as supplementary information in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison for major governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental, fiduciary and nonmajor

The Board of County Commissioners
County of Bernalillo and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

enterprise fund of the County, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budget comparisons for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2004, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements of the County taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the schedules listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The accompanying information listed as the statistical section in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Meyers + Company, LLC

November 12, 2004

COUNTY OF BERNALILLO NEW MEXICO
Management's Discussion and Analysis
June 30, 2004

As management of the County of Bernalillo (County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-vi of this report.

Financial Highlights

- The government-wide assets of the County exceed its liabilities as of June 30, 2004 by \$350,262,012 (net assets) for the primary government and by \$624,383 for the Redevelopment Corporation (Component Unit). Of this amount, \$265,676,107 is invested in capital assets, net of related debt for the primary government and \$264,939 for the component unit. Of the remaining balance, \$47,164,322 is restricted for specific purposes and \$37,421,583 is unrestricted for the primary government and \$359,444 for the component unit and may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets for the primary government increased by \$20,170,912 or by 6.1% during the fiscal year from \$330,091,100 (restated) in FY03 to \$350,262,012 in FY04.
- As of June 30, 2004, the County's governmental activities and the business-type activities have net assets of \$346,202,703 and \$4,059,309, respectively.
- The County's General Fund increased \$4,503,774 from \$43,429,177 (restated) in FY03 to \$47,932,951 in FY04. Of this amount, \$43,609,351 or 90.9% of the general fund is reserved for subsequent year's expenditures.
- The County was able to maintain adequate reserves as required by the State of New Mexico Department of Finance and Administration, Local Government Division – 3/12 of the General Fund Budget for FY05.
- During the year, the County sold \$10,210,000 of General Obligation Bonds. \$4,700,000 for roads, \$1,315,000 for storm drains, \$1,000,000 for library resources, \$525,000 for parks and recreation, \$1,500,000 for public safety, and \$1,170,000 for ADA facilities improvements.
- The County has \$301,437,321 in available bonding capacity or 78.2% of allowable bonding capacity per the New Mexico State Constitution (see page 137).
- During the year the County sold \$12,000,000 of Gross Receipts Tax Revenue Bonds for the purposes of acquiring land, constructing, purchasing, furnishing, equipping, rehabilitating or making additions to one or more public buildings.

- The County property valuations increased 3.76% from \$9.28 billion in FY03 to \$9.63 billion in FY04.
- The County maintained its Aa1 rating with Moody's Investors Service, Inc. and AA+ for Standard & Poor's Rating Service.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. For example, property taxes are recognized as revenues in the year for which they are levied.

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguished functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (Business-type activities). The governmental activities of the County include general government, public works, public safety, health and welfare, and culture and recreation. The Business-type activities of the County include Solid Waste, Bernalillo Housing Authority, Seybold Village Handicapped Project, and the Regional Juvenile Detention Center.

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate Housing Redevelopment Corporation for which the County is financially accountable. Financial information for the Bernalillo County Housing Redevelopment Corporation is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 23-24 of this report.

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other

state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. For this purpose, the County considers revenues to be available if they are collected within 60 days of the current fiscal period. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

In addition to the General fund, the County maintains fifty-two other individual governmental funds of which seventeen are classified as Special Revenue funds, thirteen are classified as Debt Service funds, and twenty-two are classified as Capital Projects funds. Information for the General fund, the grant fund, and the 1999 Revenue Bond Capital Projects fund all of which are considered to be major funds, is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General fund. A budgetary comparison statement for the General fund is presented on page 29. In addition, the County adopts an annual budget for other non-major funds. A budgetary comparison statement is presented in the aggregate and individually for all those funds.

The basic governmental fund financial statements can be found on pages 25-28 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *Business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for Solid Waste, Housing Authority, Seybold Village Handicapped Project, and the Regional Juvenile Detention Center. An *Internal service fund* is used to account for operations that provide services to other departments or agencies of the County on a cost-reimbursement basis. The County's internal service fund is the Risk Management fund, which is used to account for its risk management activities. Because the services provided by the Risk Management fund predominantly benefit governmental rather than business-type functions, this fund is included within *governmental activities* in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 30-32 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements

because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on page 33 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 35-65 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the Notes to the Financial Statements. Combining and individual fund statements and schedules can be found on pages 66-108 of this report.

Government-wide Financial Analysis

This is the third year that the County has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments. This is the second year that the County has included comparative analysis of government-wide data for the MD&A.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County's primary government, assets exceed liabilities by \$350,262,012 at the close of the most recent fiscal year. The County's component unit – Redevelopment Corporation's net assets exceeded liabilities by \$624,383. By far the largest portion of the County's net assets (75.8% percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any debt, used to acquire those assets, that is still outstanding. In the prior year, the County's investment in capital assets was 79.0% of net assets. The County uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

County of Bernalillo Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets:						
Current and other assets	\$220,550,839	\$175,990,309	\$ 1,975,886	\$2,233,851	\$222,526,725	\$178,224,160
Capital assets	478,864,013	487,489,712	2,894,514	2,552,611	481,758,527	490,042,323
Total assets	699,414,852	663,480,021	4,870,400	4,786,462	704,285,252	668,266,483
Liabilities:						
Long-term liabilities	276,140,000	264,315,422	-	9,556	276,140,000	264,324,978
Other liabilities	77,072,149	74,130,001	811,091	845,328	77,883,240	74,975,329
Total liabilities	353,212,149	338,445,423	811,091	854,884	354,023,240	339,300,307
Net Assets:						
Invested in capital assets, net of related debt	262,781,593	258,269,827	2,894,514	2,521,602	265,676,107	260,791,429
Restricted	47,164,322	23,926,773	-	-	47,164,322	23,926,773
Unrestricted	36,256,788	42,837,998	1,164,795	1,409,976	37,421,583	44,247,974
Total net assets	\$346,202,703	\$325,034,598	\$4,059,309	\$3,931,578	\$350,262,012	\$328,966,176

Restricted net assets in the amount of \$47,164,322 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$37,421,583 may be used to meet the government's ongoing obligations to citizens and creditors.

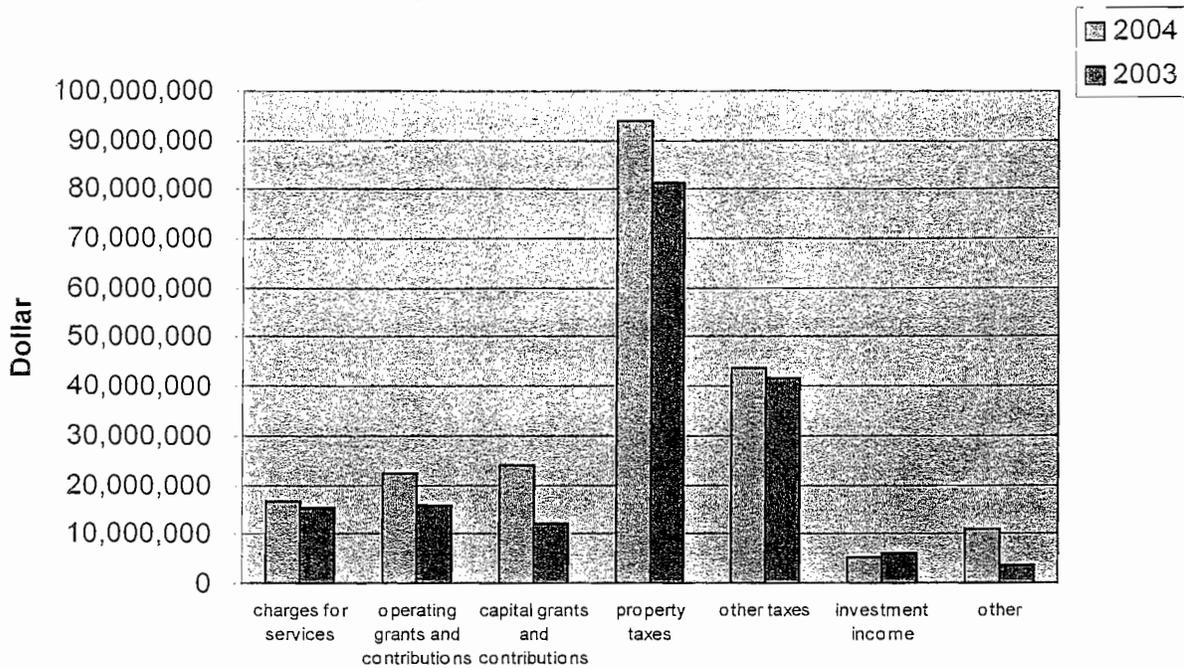
At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities during the year increased the County's net assets by \$19,871,845 in FY04 as compared to \$9,719,542 in FY03.

County of Bernalillo's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues:						
Program revenues:						
Charges for services	\$16,687,882	\$ 15,426,450	\$ 5,945,501	\$ 5,368,316	\$22,633,383	\$ 20,794,766
Operating grants and contributions	21,715,925	15,613,995	148,490	292,097	21,864,415	15,906,092
Capital grants and contributions	23,844,677	12,263,064	-	-	23,844,677	12,263,064
General revenues:						
Property taxes	94,043,897	81,442,677	-	-	94,043,897	81,442,677
Other taxes	43,833,169	41,602,958	-	-	43,833,169	41,602,958
Investment income	5,184,585	6,067,056	5,175	6,243	5,189,760	6,073,299
Grants and contributions not restricted to specific programs	-	-	708,896	632,117	708,896	632,117
Other	11,332,291	3,488,475	119,379	100,748	11,451,670	3,589,223
Total revenues	<u>216,642,426</u>	<u>175,904,675</u>	<u>6,927,441</u>	<u>6,399,521</u>	<u>223,569,867</u>	<u>182,304,196</u>
Expenses:						
General government	37,501,192	35,401,110	-	-	37,501,192	35,401,110
Public works	32,294,831	17,430,834	-	-	32,294,831	17,430,834
Public safety	82,328,864	70,268,870	-	-	82,328,864	70,268,870
Health and welfare	18,785,416	18,236,535	-	-	18,785,416	18,236,535
Culture and recreation	11,409,199	10,970,249	-	-	11,409,199	10,970,249
Interest on long-term debt	14,651,079	13,877,535	-	-	14,651,079	13,877,535
Solid Waste	-	-	3,353,335	3,256,760	3,353,335	3,256,760
Housing Authority	-	-	1,672,735	1,632,148	1,672,735	1,632,148
Seybold Village	-	-	126,954	135,129	126,954	135,129
Juvenile Detention Center	-	-	1,275,350	1,190,085	1,275,350	1,190,085
Total expenses	<u>196,970,581</u>	<u>166,185,133</u>	<u>6,428,374</u>	<u>6,214,122</u>	<u>203,398,955</u>	<u>172,399,255</u>
Increase in net assets before transfers	19,671,845	9,719,542	499,067	185,399	20,170,912	9,904,941
Transfers in (out)	200,000	-	(200,000)	-	-	-
Increase in net assets	<u>19,871,845</u>	<u>9,719,542</u>	<u>299,067</u>	<u>185,399</u>	<u>20,170,912</u>	<u>9,904,941</u>
Net assets –beginning	325,034,598	275,231,891	3,931,578	3,746,179	328,966,176	278,978,070
Restatement	1,296,260	40,083,165	(171,336)	-	1,124,924	40,083,165
Net assets – beginning as restated	<u>326,330,858</u>	<u>315,315,056</u>	<u>3,760,242</u>	<u>3,746,179</u>	<u>330,091,100</u>	<u>319,061,235</u>
Net assets – ending	<u>\$ 346,202,703</u>	<u>\$ 325,034,598</u>	<u>\$ 4,059,309</u>	<u>\$ 3,931,578</u>	<u>\$ 350,262,012</u>	<u>\$ 328,966,176</u>

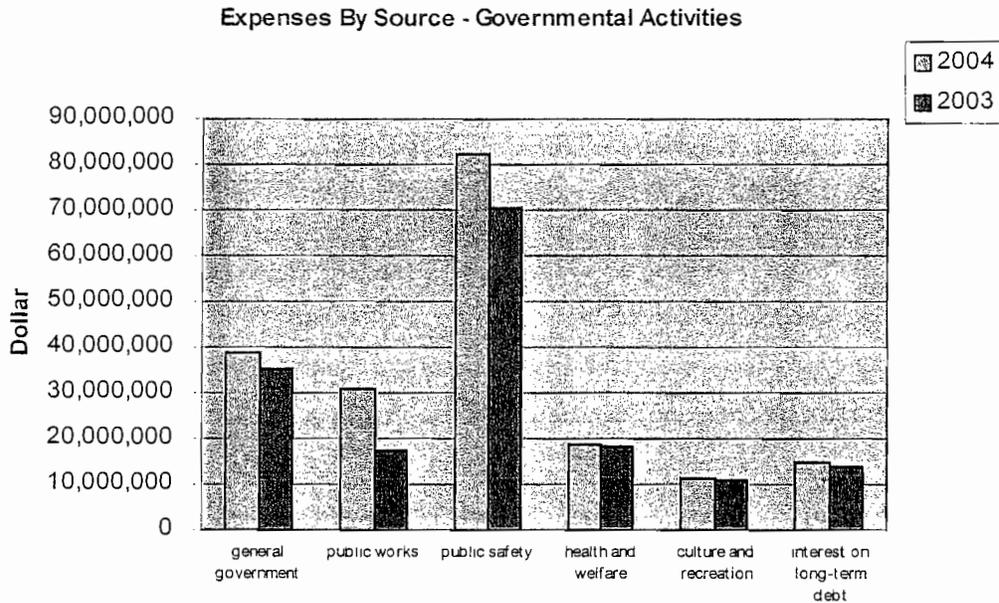
Revenues By Source - Governmental Activities



Governmental Activities revenues increased by \$40.7 million during the year from \$175.9 million in FY03 to \$216.6 in FY04, an increase of 23.1%. Key elements in the growth of governmental activities revenues are as follows:

- Property taxes revenue increased \$12.6 million from \$81.4 million to \$94.0 million in FY04. The increase in property tax revenue accounts for 30% of the total increase of revenues during the year and is attributed to three different factors. Taxable property valuation within the County increased 3.7% to \$9.633 billion or by \$349 million from the previous year. In FY04, the County's operational residential mill levy rate increased from 5.918 to 7.007 and the operational non-residential mil levy rate increased from 10.520 to 11.600. The debt service mill levy rate decreased slightly from 0.95 to 0.83. The changes in the mill levy rates contributed to the significant growth in property tax revenues in FY04. Another contributing factor is the increase in the current property tax collection rate from 95.12% to 95.40% in FY04.
- Program revenues Capital Grants and Contributions increased by \$11.6 million from \$12.2 million to \$23.8 million in FY04, a 95% increase. A significant portion of the increase (\$8.5 million) is attributed to an increase in intergovernmental revenue related to the work on the Valley Utilities Project. Another portion of the increase is attributed to a \$2.2 million grant for the repayment of a loan on the Paseo Del Norte road project.
- Operating Grants and Contributions increased by \$6.1 million from \$15.6 million to \$21.7 million in FY04, a 39% increase. In FY04, the County began management of local DWI distribution grant monies that increased public safety grant revenue by approximately \$5.5 million.

- Other revenue increased by \$7.9 from \$3.4 million to \$11.3 million in FY04, an increase of 232%. A majority of this increase is attributed to \$4.2 in revenues received from the City of Albuquerque for reimbursable food, canteen, and utilities costs incurred by the County on behalf of the jointly funded Metropolitan Detention Center. In prior years, these shared costs were incurred by the City and allocated back to the County. The other significant factor in the increase in miscellaneous revenue was a \$1.65 million property tax abatement settlement from Philips Semiconductors. Other amounts include revenue received from legal settlements in the amount of \$910,644 and other miscellaneous reimbursements.



Governmental activities expenses increased by \$30.7 from \$166.2 million to \$196.9 million, an increase of 18%. Key elements in the changes of governmental activities expenses are as follows:

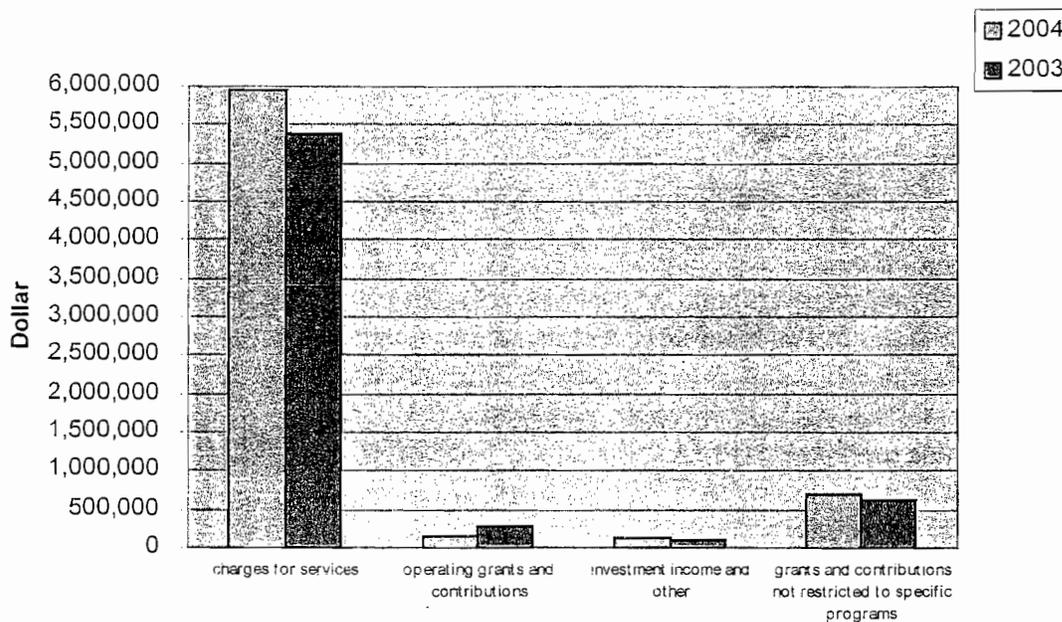
- General government expenses increased from \$35.4 million to \$37.5 million, a 5.9% increase. In FY02, the general government expenses were decreased for the reversal of a contingent liability of \$4.2 million for a pending lawsuit that was settled for \$1.9. The net effect of this prior year transaction reduced general government expenses from \$37.7 million to \$35.4 million in FY03. Had prior year expenses not been reduced for this amount, the net change in expense between FY03 and FY04 would have only been 2.8%. The small increase in general government expenses is attributed in part to the reclassification of \$2.8 million that decreased Facility Management expenses in FY04. Custodian services and maintenance and repairs cost centers that were included within general government category in FY03 were transferred to the Public Works Department in FY04.
- Public works expenses increased from \$17.4 million to \$32.2 million, an increase of 79.8%. A significant part of the increase is attributed to the loss on disposition of capital assets in the amount of \$8.9 million. In FY04, the County turned over ownership of various roads and right-of-ways infrastructure to other local governments. The recorded value of the road and right-of-way infrastructure was \$1.2 million and \$7.7 million, respectively. Another significant increase is due

to the increased work activity on the Valley Utilities Project (\$8.5 million). The increase in public works expenses is also attributed in part to the reorganization of several departments within the County that increased expenditures \$2.8 million.

- Public safety expenses increased from \$70.2 million to \$82.3 million, a 17.0% increase. In FY04, the County took over the grant management of local DWI distributions that increased public safety grant expenses by \$5.5 million. In FY04, the County on behalf of the jointly funded Metropolitan Detention Center incurred approximately \$4.2 in expenses for reimbursable food, canteen, and utility costs. In prior years, these shared costs were incurred by the City of Albuquerque (City) and allocated back to the County. In FY04, the County paid for these costs and was reimbursed by the City. Also, in FY04, the MDC became fully operational and the County recognized a full year of depreciation on the \$90.4 million MDC facility. Depreciation expense increased from \$774,062 in FY03 to \$3.6 million in FY04. Also in FY04, the Law Enforcement Block Grant reimbursable expenses increased from \$444,039 to \$1,055,500.

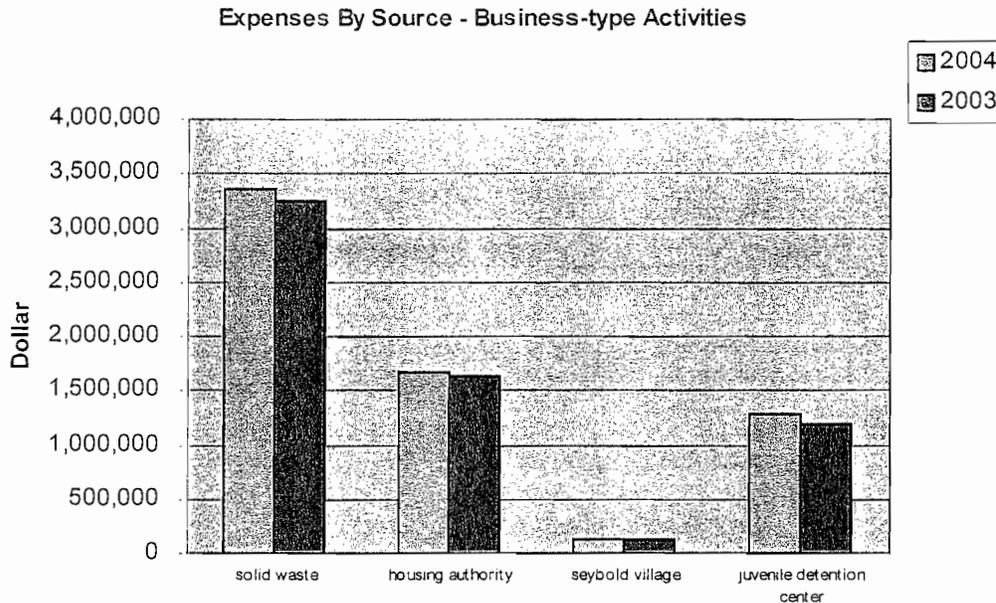
Business-type activities. Business-type activities net assets increased by \$299,067 during the current fiscal year. This increase represents the degree to which ongoing program and non-operating revenues have outstripped ongoing expenses in the Housing Authority and Regional Juvenile Detention Center business-type activities in the amount of \$620,838 and \$55,764, respectively. The Solid Waste fund and Seybold Village Handicapped Project fund incurred losses of \$150,147 and \$27,388 respectively before operating transfers out. Overall the Business-type activities experienced an \$334,383 operating loss (program revenues less expenses) before non-operating revenues of \$833,450.

Revenues By Source - Business-type Activities



Business-type activities, revenue increased from \$6.4 million in FY03 to \$6.9 in FY04, an 8.2% increase. A key element in the growth of business-type activities revenues is as follows:

- Revenue Program charges for services increased from \$5.3 million in FY03 to \$5.9 million in FY04, a 11.3% increase. The increase in revenues is primarily attributed to the increase in administrative and service fees due to expanding services in both the Housing Authority and Regional Juvenile Detention Center.



Business-type activities expenses increased from \$6.2 million to \$6.4 in FY04, a 3.4% increase. Key elements in the growth of business-type activities expenses are as follows:

- Expenses in the Solid Waste fund increased slightly from \$3.2 million to \$3.3 million in FY04, a 2.0% increase. The increase is attributed to increased cost for salaries and goods and services. A transfer of \$200,000 was made to the General Fund to reimburse the General Fund for indirect cost incurred on behalf of the Solid Waste Fund.
- Expenses in the Juvenile Detention Center increased from \$1.19 million to \$1.27 million in FY04, a 7.1% increase. The increase in expenses is attributed in part to a 5.4% increase in salaries and wage expense in the amount of \$52,514.

Financial Analysis of the County's Funds

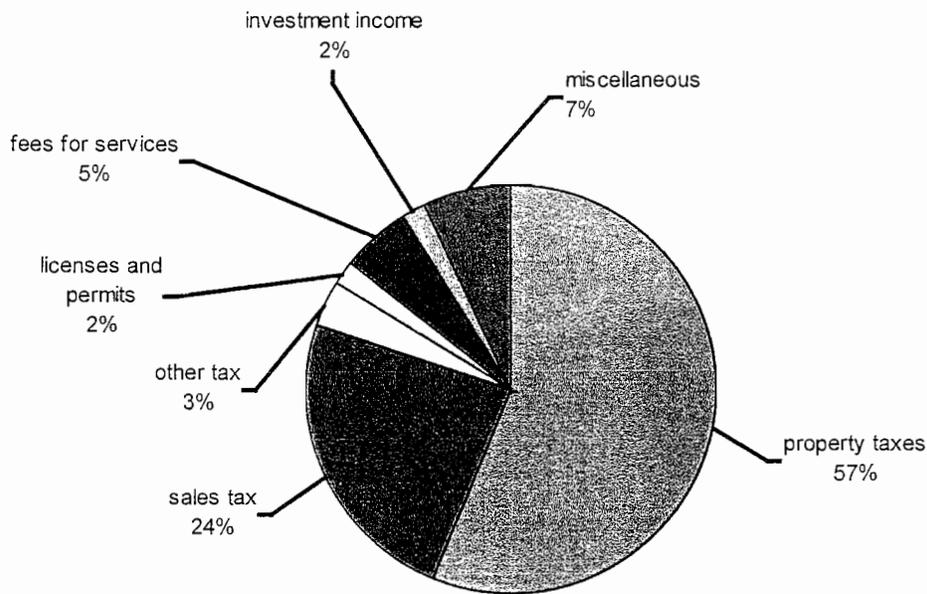
Governmental Funds. The focus of the County's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$168,171,636. Approximately 19.7% of this total, \$51,053,439 constitutes unreserved

fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) to subsequent year's expenditures \$43,609,351 2) encumbrances to liquidate contracts and purchase orders of the prior period \$31,544,867, 3) to pay debt service \$39,867,900, and 4), for a variety of other restricted purposes \$2,096,079.

General Fund. The fund balance of the County's general fund increased by \$4,503,774 during the current fiscal year. Key factors in this growth are based on the increase in local taxes from the previous year combined with less than expected incurred expenditures during the year.

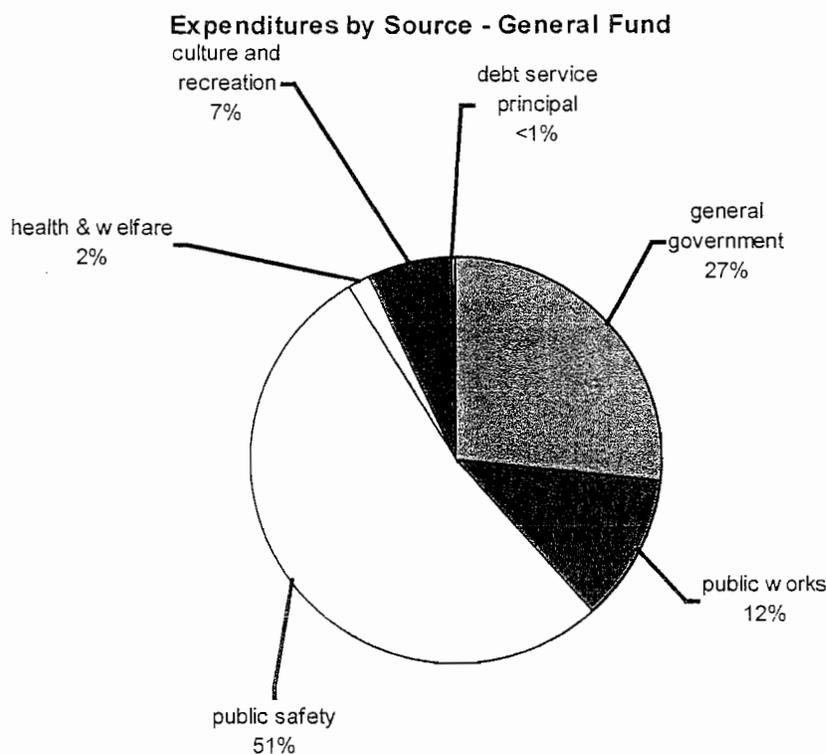
Revenues by Source - General Fund



General Fund revenues increased by \$24.2 million from \$123.5 million to \$147.7 million, an increase of 19.5%. Key elements in the growth of General Fund revenues are as follows:

- Property taxes revenue increased by \$13.1 million or by 18.7% from \$69.8 million in FY03 to \$82.9 million in FY04. The increase in property tax revenue accounted for 54% of the increase in total revenues. The increase in property tax revenue is attributed to three different factors. In FY04 County taxable property valuation increased 3.7% to \$9.633 billion or by \$349 million from the previous year. In FY04 the County's operational residential mill levy rate increased from 5.918 to 7.007 and the operational non-residential mill levy rate increased from 10.520 to 11.600. Another contributing factor in the increase in property taxes was the increase in the current property tax collection rate from 94.82% to 95.40% in FY04.

- Miscellaneous revenue increased by \$7.2 million or by 226% from \$3.0 to \$10.2 million in FY04. The increase in miscellaneous revenue accounted for 29% of the increase in total revenues from the previous year. A majority of this increase is attributed to \$4.2 in revenue received from the City of Albuquerque for reimbursable food, canteen, and utilities costs incurred by the County on behalf of the jointly funded Metropolitan Detention Center. In prior years, these shared costs were incurred by the City and allocated back to the County. The other significant factors were a \$1.65 million property tax abatement settlement from Philips Semiconductors and \$410,644 from legal settlements.
- Gross receipt tax revenue increased by \$2.1 million or by 6.3% from \$33.2 million to \$35.3 million in FY04. The increase in gross receipt tax revenue accounted for 8.6% of the increase in total revenues.



In FY04, General Fund expenditures increased \$4.7 million from \$114.5 million to \$119.7 million, a 4.1% increase. A majority of the increase is attributed to \$4.2 in expenditures received from the City of Albuquerque for reimbursable food, canteen, and utilities costs incurred by the County on behalf of the jointly funded Metropolitan Detention Center. In prior years, these shared costs were incurred by the City and allocated back to the County. Also, in FY03, the County expended \$2.0 million in judgement settlements as compared to only \$9,500 in FY04. In FY04, a \$1.6 prior period adjustment was made to fund balance to correct an over statement of prior year expenditures.

Other key elements in the overall growth of General Fund expenditures are as follows:

- Capital outlay for the purchase of new Sheriff and fleet vehicles increased by \$862,035 from \$307,071 to \$1,169,106 in FY04.
- In FY04, County employees on average received an across the board salary increase and an increase in their healthcare benefits. A significant portion of the increase was in the General Fund in the amount of \$2.5 million.

Other changes in the General Fund expenditures were explained in the analysis of the government-wide Statement of Net Activities. Additional comparison of General, Special Revenue, and Debt Service Fund revenue and expenditures of prior years can be found in the statistical section of this report.

Proprietary funds. The County proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets (deficit) of the Solid Waste Fund, Bernalillo County Housing Authority, Seybold Village Handicapped Project, and the Regional Juvenile Detention Center at the end of the year were \$(16,655), \$2,386,312, \$1,533,995 and \$155,657 respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the County's business-type activities.

Budgetary Highlights Original Budget – Final Budget Comparison.

General Fund. General fund original budgeted revenues increased \$6.3 million or by 4.6% from \$134.4 million to \$140.7 million (final). General fund original budgeted expenditures increased \$9.9 million or by 7.1% from \$137.7 million to \$147.6 million (final). Significant changes between the original budget and the final amended budget are summarized as follows:

- The original budget for Gross Receipts Tax revenue increased \$845,875 from \$32.8 million to \$33.6 million (final). The increase was based on a higher than expected collection rate that was a result of an improvement in the local area economy.
- The original budget for Fees for Services revenue was decreased \$392,714 from \$7.76 million to \$7.37 million (final). During the year, a budget classification was made to transfer \$621,000 in budget utility revenue to the miscellaneous revenue budget. There were minor budget increases in Clerk fees and Metro Court security services reimbursements that offset the decrease.
- The original budget for Miscellaneous revenue was increased \$5,316,000 from \$594,216 to \$5.9 million (final). In FY04 the County took over the management of the food contract for the Metropolitan Detention Center (MDC). The revenue budget was increased \$4.6 million to establish a budget for food costs incurred by the County on behalf of MDC that are reimbursed by the City of Albuquerque. Another increase of \$621,000 was made to establish a budget for utility costs incurred by the County for MDC that are reimbursed by the City of Albuquerque.
- A budget increase of \$768,071 to "Transfer In" was made to close out several unexpended funds.

- The Cash Appropriations budget was increased \$4.6 million to account for the increase in budgeted expenditures in excess of budget revenues.
- The Information Technology (IT) Department original expenditure budget decreased \$727,154 from \$6.9 million to \$6.2 million. A budget adjustment of \$644,799 was made to establish a reimbursement budget for IT cost associated with the management of the MDC computer and phone line systems that are reimbursed by the City of Albuquerque.
- The Finance and Administration original expenditure budget decreased \$552,939 from \$6.7 million to \$6.2 million to reflect the reduction of multi-line property insurance premiums.
- The General County original expenditure budget increased \$4.7 million from \$11.6 million to \$16.4 million (final). The budget adjustment was needed to establish a budget to reimburse the General Fund reserves for Project Revenue Bond and Gross Receipt Tax Bond expenditures prior to the receipt of the proceeds from the sale of Project Revenue Bonds and GRT Bonds in the amount of \$2,000,000 and \$2,500,000, respectively.
- The County Clerk original expenditure budget increased \$661,019 from \$2.7 million to \$3.4 million (final). A budget adjustment of \$235,127 was made to salaries to increase funding for temporary part time help for the general election and another \$178,500 for the cost of ballots due to the increasing demand for early voting ballots.
- The Sheriff's Office original expenditure budget increased \$885,612 from \$21.7 million to \$22.6 million (final) to account for the increase in salary cost.
- The Metropolitan Detention Center original expenditure budget increased \$5.1 from \$33.2 million to \$38.3 million. Most of the increase was to establish a budget in the amount of \$4.6 million for food cost incurred by the County on behalf of MDC that are reimbursed by the City of Albuquerque.
- The budget for "Transfers out" increased \$1.8 million from \$25.6 million to \$27.4 million. An additional budget transfer of \$1,054,000 was made to Water/Wastewater Fund for water and sewer projects. An additional budget transfer of \$398,904 was made to the TRAN debt service fund to pay for TRAN interest expense. And a final budget transfer of \$350,000 was made to reimburse the Grant Fund for unification election cost.

Other Major Funds. The County does not adopt annual budgets for the Grant Fund and 1999 Revenue Bond Fund.

Budgetary Highlights – Budget to Actual

General Fund. General Fund revenues exceeded budgetary estimates by \$6,134,305 or by 4.3%. General Fund expenditures were less than budgetary estimates by \$17,295,111, or by 11.7% thus eliminating the need to draw upon existing fund balance. However, during the year the County incurred a deficiency of revenues over expenditures and other financing sources in the amount of (\$7,582,696). A very large portion of this deficiency was attributed to over \$13 million in prior year

accounts payables that were paid in FY04 to the City of Albuquerque for the operations of the Metropolitan Detention Center. Individual significant differences between the General Fund final budget and actual amounts are summarized as follows:

- Property tax revenue had a positive variance of \$1,377,741. The budget projections had projected a 95% collection rate of current property taxes within the County as of June 30, 2004. The actual collection rate was 95.40%. The significant reason for the positive variance was that delinquent taxes and interest on delinquent taxes exceeded projections by \$818,696 and \$363,160, respectively.
- Gross Receipts Tax revenue had a positive variance of \$1,485,469 that was the result of an improvement in the local economy in FY04.
- Investment income revenue had a negative variance of (\$1,675,069). Income revenue projections included expectations that the rate of return on investments would have increased from the previous year with an improved local and national economy; however, interest rates did not increase significantly. During the year, the County had a significant portion of its funds invested in a high yielding investment that matured during the year. The County was unable to obtain a similar rate of return when these funds were re-invested.
- Miscellaneous income had a positive variance of \$4,115,487. This positive variance was attributed to several different factors. In FY04, the County received a \$1.65 million property tax abatement settlement from Philips Semiconductors that had not been budgeted. During the year, the County also received \$1,371,228 in refunds and reimbursement. This amount included a \$500,000 Jail settlement and legal reimbursement of \$410,644.
- Finance and Administration expenditures had a positive variance of \$1,014,729. This variance is primarily attributed to lower insurance premiums and deductibles of \$194,342 and less than expected expenditures from Law Enforcement Officer liability claims in the amount of \$651,169, and lower than expected fleet replacement cost of \$93,590.
- General County expenditures had a positive variance of \$10,666,410. A large portion of the variance, \$4.5 million, is attributed to the establishment of budget to reimburse the General Fund reserves for any expenditures prior to the receipt of the proceeds from the sale of Project Revenue Bonds and GRT Bonds. During the year no expenditures were incurred for these budgeted items. Another large part of the variance was attributed to \$2,424,233 in contingency salary and \$662,817 in salary cap expenditures that did not occur. There was also a positive variance of \$291,543 for space contingency. The remaining variance balance pertained to various other expenditure categories including contractual services, capital outlay, and repair and maintenance.
- Bernalillo County Detention Center had a positive variance of \$1,929,110. This variance is attributed to less than expected cost for food and commissary supplies in the amount of \$1,200,066 and less than expected operating cost of \$786,398.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business type activities as of June 30, 2004 amounts to \$481,758,527 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, and infrastructure. Major capital asset events during the current fiscal year included the following:

- Work on the Valley Utilities Project started in FY02 is progressing and is expected to take close to ten years to complete at a cost of nearly \$110 million. The project will provide municipal utilities to properties in the developed areas of the South and North Valleys of the County. During the fiscal year, several significant sewer projects were completed: Pajarito Sanitary Sewer, Areas 6 and 7, Area "D" Sanitary Sewer, Hunter Road/Elsa Road Sanitary Sewer, Love Road Sewer Extension, and Coors 8,9, and 10 Sanitary Sewer Areas.
- Work has been completed on Phase 1 of Isleta Boulevard Reconstruction Project. The road, once part of El Camino Real, remains an important social artery and economic lifeline to the community. The design for the Isleta Boulevard Reconstruction Project Phase 2 has continued with right-of-way acquisition started.
- Through the use of funds from County bonds and the New Mexico Department of Transportation, the Public Works Department was able to complete the construction of a number of local road improvement projects throughout the County. Paving improvements funded from grants were made to 13 roads throughout the County and paving improvements funded from GO Bonds were made to 15 roads throughout the year. Several significant projects were constructed or construction was started including the following; Gatewood Road/Drainage, Five Points Road/Drainage, Prince Street Road/Utilities, and Adobe Acres Roads. Golf Course Road project design was completed and the appraisal and acquisition of 43 right-of-way parcels was finalized. Over 26 miles of County roads throughout the unincorporated areas were paved.
- Completed plans and specifications for Tramway and Isleta Fiber Optic Interconnect Project to improve traffic signal coordination. This project was undertaken as an in-house design endeavor. With money saved from not incurring fees normally charged with an outsourced project, additional resources will be applied to design and construct Phase II of this project to upgrade existing telephone line communication to the Traffic Operations Center at 2400 Broadway.
- Continued coordination with AMAFCA and the Corps of Engineers (COE) on the Southwest Valley Flood Reduction project. The project will provide a major outfall to the Rio Grande by upgrading MRGCD facilities consisting of Isleta, Armijo, and Los Padillas drainways and constructing new facilities to reach the Rio Grande. This outfall system will be the backbone for a regional drainage system serving the majority of the central South Valley area.

County of Bernalillo's Capital Assets
(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$120,666,798	\$124,501,275	\$ 426,500	\$ 432,002	\$121,093,298	\$ 124,933,277
Buildings	189,323,702	194,534,189	2,020,383	2,081,186	191,344,085	196,615,375
Machinery and equipment	12,311,761	14,202,911	32,322	39,423	12,344,083	14,242,334
Infrastructure	141,412,719	135,644,980	-	-	141,412,719	135,644,980
Leasehold improvements	2,458,173	2,570,333	-	-	2,458,173	2,570,333
Construction in progress	11,266,348	14,615,312	415,309	-	11,681,657	14,615,312
Art	1,424,512	1,420,712	-	-	1,424,512	1,420,712
Total	\$478,864,013	\$487,489,712	\$2,894,514	\$ 2,552,611	\$481,758,527	\$ 490,042,323

Additional information on the County's capital assets can be found in note IV-C. on pages 50-51 of this report.

Debt administration. The Bernalillo County Budget and Finance Division has analyzed the existing debt position of the County and has assessed the impact of future financing requirements on the County's ability to service additional debt. Review and analysis of the County's debt position is performed to provide a capital financing plan for infrastructure and other improvements. Long-term financing projections are linked with economic, demographic and financial resources expected to be available to repay the debt. Decisions regarding the use of debt are based upon a number of factors including, but not limited to, the long-term needs of the County and the amount of resources available to repay the debt. The debt policy is not expected to anticipate every future contingency in the County's capital program or future operational needs. Sufficient flexibility is required to enable County management to respond to unforeseen circumstances or new opportunities, when appropriate.

The County will maintain direct tax supported debt at a manageable level that takes into account economic factors including population, assessed valuation, and other current and future tax-supported essential needs. The decision to issue bonds, by either competitive or negotiated sale, is based upon which alternative will provide the County with lower costs. The Board of County Commissioners decides on an issue-by-issue basis which method of sale would be most appropriate. The County encourages the use of competitive sales for all issues unless circumstances dictate otherwise. Negotiated sales are considered if the sale is a complex financing structure. If a negotiated sale is anticipated, the Budget and Finance Division and County Bond Counsel establish a list of prequalified underwriters.

General Obligation Bonds. At the end of the current fiscal year, the County had total general obligation debt outstanding of \$83,915,000. The county has outstanding general obligation bonds for capital facilities including road improvements, storm drain improvements, library books, public safety improvements and park facility improvements. General obligation bonds are backed by the full faith and credit of the County government and are supported by ad valorem taxes. The tax rate depends upon debt service schedules and property valuation and is set by the New Mexico Department of Finance and Administration. In fiscal year 2004 this tax is approximately \$.83 per \$1,000 of assessed taxable value in ad valorem taxes to support general obligation bonds, which constitute direct and general obligations of the County. These bonds have retirement dates ranging from August 1, 2010

through December 15, 2023. The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the County's debt position. The State's Constitution provides for a legal debt limit of four percent (4.0%) of taxable valuation. The ratio for the County is less than one percent (0.9%) of the \$9.633 billion taxable value of property within Bernalillo County, as of June 30, 2004. The County may currently issue up to an additional \$301.4 million of general obligation bonds. The net general bonded debt per capita is \$138.94. The lowest per capita amount in the last ten fiscal years was \$86.04 in fiscal year ended June 30, 1996. The County's ratings on uninsured general obligation bonds as of June 30, 2004 were:

- Moody's Investors Service, Inc. Aa1
- Standard & Poor's Rating Service AA+

At the end of the current fiscal year, the County had total revenue bond debt outstanding of \$191,875,000. The county has six outstanding revenue bonds: the 1996B series, the 1997 series, the 1998 refunding series, the 1999 series, the 2002 series, and the 2004 series. These bonds are payable from net pledged gross receipt tax revenues. Although the bonds are general obligations of the County, the County intends to pay the bonds solely from the net pledged revenues. These bonds have retirement dates ranging from November 15, 2011 through April 1, 2027.

Revenue Bonds Supported by the Clerk's Office Filing Fees. At the end of the current fiscal year, the County had total revenue bond debt outstanding of \$350,000 that was supported by net pledged filing fee revenues. Although this bond is a general obligation of the County, the County intends to pay the bond solely from the net pledged filing fee revenues. This bond has a retirement date of 2005.

General Obligation and Revenue Bonds Outstanding

	Governmental Activities		Business-type Activities	
	2004	2003	2004	2003
General obligation bonds	\$ 83,915,000	\$ 77,155,000	-	-
Revenue bonds	192,225,000	184,910,378	-	-
Total	\$276,140,000	\$262,065,378	-	-

The County's total bond debt increased by \$14,074,622 during the current fiscal year. Additional information on the County's long-term debt can be found in note IV.F on pages 54-56 of this report and in the statistical section of this report.

Economic Factors and Next Year's Budgets and Rates

The County's Board of Commissioners and Manager considered many factors when setting the fiscal year 2005 budget. According to forecasts by the University of New Mexico Bureau of Business and Economic Research (BBER), the outlook for the Albuquerque MSA economy is good. Strength during the forecast period will come from construction, educational and health services, a resurgent manufacturing sector, and consistent moderate gains from several other sectors, including government,

and professional and scientific and technical services. Personal income growth will reach 6.0 percent in 2004 and 2005, and decline to just over 5.5% annually from 2006 through 2009.

Following virtually no employment gains from 2001 to 2003, non-farm employment growth is expected to reach 1.7% in 2004 and 2.5% in 2005, and then level off near 2% annually through 2009. The manufacturing sector will finally enjoy positive employment growth by the end of 2004. For the entire year, manufacturing employment will decline 1.2 %, but will be followed by gains of 3.7% in 2005 and 2.2% in 2006. The closing of Philips Semiconductors and Honeywell Automation and Controls Solutions Division will contribute to the decline in manufacturing job growth this year. On the other hand, new manufacturing jobs are currently being added in 2004, and will be added in 2005. Manufacturing firms that are adding jobs include Ocular Sciences, Noteworthy Industries, Honeywell Defense Avionics, Cabot Superior MicroPowders, Team Specialty Products, MesoFuel, Aerospace Composite Structures, MCT Industries, Stainless Motors, Intellite, Sennheiser New Mexico LLC, Phoenix Cabinets and Countertops, Mechanical Solutions, and Heel Biotherapeutics. Newcomer TempurPedic, a manufacturer of mattresses and related products that the County was instrumental in bringing to New Mexico, is building a factory on the West Side of Albuquerque. TempurPedic plans to employ 300 people in 2005. Eclipse Aviation is adding 300 jobs in the near term, and will add hundreds more in 2007 when it reaches full production mode.

The construction sector will enjoy robust employment growth throughout the forecast period, with a 4.9% increase slated for 2004, and between 3.0% and 4.0% per year beginning in 2005. Construction employment growth will receive a large boost from a large share of the \$1.6 billion infusion state funds to improve New Mexico roads and highways with one-half slated to be spent in the Albuquerque MSA. Other large projects include the Microsystems Engineering and Sciences Application complex, the Center for Integrative Nanotechnology, the International Balloon Museum, and the Uptown “lifestyle center” at Winrock Center.

The government sector, about twenty percent of Albuquerque MSA employment, will enjoy moderate growth close to 2.0% each year through 2009, and will thus provide an element of stability. Local government employment growth will be close to 2.5% annually, while state government employment will exhibit consistent growth of a little less than 2.0% per year. At the federal level, employment has been stable for years, but in the latter part of 2004, there will be an increase of 400 jobs when the U.S. Forest Service opens a financial services center.

Job growth will remain strong in the educational and health services/social assistance sector, but growth will subside during the forecast period. After reaching 4.9% in 2004, growth will ease to 4.4% in 2005 and thereafter decline by about .5% annually, until it reaches 2.6% in 2009. There is a significant expansion by Presbyterian Healthcare Services underway, including the remodeling of one health care facility and the construction of another. The trade sectors face a future of mild growth. Wholesale trade employment will average about .5% gains annually, while retail trade employment remains in the 1.0% to 2.0% range each year. Additional strength will come from the professional, scientific and technical services, each of which will consistently enjoy employment growth in the 2.0% to 2.5% interval annually. Employment in the leisure and hospitality industry showed a 2.0% gain in 2004 and is expected increase to 2.2% in 2005 and 1.0% annually through 2009.

Request for Information

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Finance and Budget Division, One Civic Plaza, NW – 10th Floor, Albuquerque, New Mexico 87102.

COUNTY OF BERNALILLO, NEW MEXICO
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Redevelopment Corporation
ASSETS				
Cash and investments	\$ 176,208,542	\$ 1,245,257	\$ 177,453,799	\$ 164,721
Bond receivable	11,752,547	-	11,752,547	-
Accounts receivable	18,280,820	959,843	19,240,663	704
Accrued interest receivable	495,843	1,587	497,430	176
Note receivable	9,479	-	9,479	-
Due from primary government	-	-	-	550
Due from grantor	10,621,665	-	10,621,665	-
Due from component unit	22,936	-	22,936	-
Internal balances	341,497	(341,497)	-	-
Inventory	38,271	-	38,271	-
Prepaid assets	1,110,825	-	1,110,825	-
Deferred charges	535,414	-	535,414	-
Restricted assets:				
Cash and cash equivalents	500,000	110,696	610,696	226,203
Investment in joint venture	633,000	-	633,000	-
Capital assets (net of accumulated depreciation):				
Land	120,666,798	426,500	121,093,298	36,852
Building	189,323,702	2,020,383	191,344,085	2,078,086
Machinery and equipment	13,736,273	32,322	13,768,595	-
Infrastructure	141,412,719	-	141,412,719	-
Construction in progress	11,266,348	415,309	11,681,657	-
Leasehold improvements	2,458,173	-	2,458,173	-
Total assets	<u>699,414,852</u>	<u>4,870,400</u>	<u>704,285,252</u>	<u>2,507,292</u>
LIABILITIES				
Accounts payable	6,033,710	237,069	6,270,779	3,584
Interest payable	3,919,815	-	3,919,815	-
Retainage payable	235,642	-	235,642	-
Tax anticipation note payable	45,000,000	-	45,000,000	-
Accrued payroll	4,245,596	95,525	4,341,121	-
Due to component unit	550	-	550	-
Deferred revenue	8,366,725	299,516	8,666,241	380
Due to grantor	21,609	-	21,609	-
Due to primary government	-	-	-	22,936
Deposits held in trust for others	-	5,552	5,552	6,009
Noncurrent liabilities:				
Due within one year	10,674,417	9,556	10,683,973	35,000
Due in more than one year	274,714,085	163,873	274,877,958	1,815,000
Total liabilities	<u>353,212,149</u>	<u>811,091</u>	<u>354,023,240</u>	<u>1,882,909</u>
NET ASSETS				
Invested in capital assets, net of related debt	262,781,593	2,894,514	265,676,107	264,939
Restricted for:				
Public safety	2,197,943	-	2,197,943	-
Culture and recreation	12,289	-	12,289	-
Health and welfare	3,490,172	-	3,490,172	-
Debt service	8,751,708	-	8,751,708	-
Capital projects	29,193,942	-	29,193,942	-
Other purposes	3,518,268	-	3,518,268	-
Unrestricted	36,256,788	1,164,795	37,421,583	359,444
Total net assets	<u>\$ 346,202,703</u>	<u>\$ 4,059,309</u>	<u>\$ 350,262,012</u>	<u>\$ 624,383</u>

The notes to the financial statements are an integral part of this statement.



**BERNALILLO COUNTY, NEW MEXICO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Redevelopment Corporation
					Governmental Activities	Business-type Activities		
Primary government:								
Governmental activities:								
General government	\$ 37,501,192	\$ 16,687,785	\$ 504,723	\$ 6,355	\$ (20,302,329)	\$ (20,302,329)	\$ -	
Public works	32,294,831	-	356,530	21,216,205	(10,722,096)	(10,722,096)	-	
Public safety	82,328,864	-	8,503,339	103,493	(73,722,032)	(73,722,032)	-	
Culture and recreation	11,409,199	97	841,768	1,644,695	(8,922,639)	(8,922,639)	-	
Health and welfare	18,785,416	-	11,509,565	873,929	(6,401,922)	(6,401,922)	-	
Interest on long-term debt	14,651,079	-	-	-	(14,651,079)	(14,651,079)	-	
Total governmental activities	196,970,581	16,687,862	21,715,925	23,844,677	(134,722,097)	(134,722,097)	-	
Business-type activities:								
Solid waste	3,353,335	3,054,698	148,490	-	(150,147)	(150,147)	-	
Housing Authority	1,672,735	1,528,126	-	-	(144,609)	(144,609)	-	
Seibold Village Handicapped Project	126,954	31,563	-	-	(95,391)	(95,391)	-	
Regional Juvenile Detention Center	1,275,350	1,331,114	-	-	55,764	55,764	-	
Total business-type activities	6,428,374	5,945,501	148,490	-	(334,383)	(334,383)	-	
Total primary government	\$203,398,955	\$ 22,633,383	\$ 21,864,415	\$ 23,844,677	(134,722,097)	(135,056,480)	-	
Component Unit:								
Redevelopment Corporation	\$ 392,493	\$ 97,643	-	-	-	-	(294,850)	
General revenues:								
Property taxes					94,043,897	94,043,897	-	
Gross receipts taxes					38,725,557	38,725,557	-	
Motor vehicle taxes					3,547,419	3,547,419	-	
Cigarette taxes					6,477	6,477	-	
Gas taxes					1,553,716	1,553,716	-	
Investment income					5,175	5,189,760	2,538	
Operating grants					708,896	708,896	230,634	
Miscellaneous					11,332,291	11,451,670	-	
Transfers					200,000	-	-	
Total general revenue and transfers					154,593,942	155,227,392	233,172	
Change in net assets					19,871,845	20,170,912	(61,678)	
Net assets - beginning					325,034,598	328,966,176	686,061	
Prior period adjustment					1,296,260	1,124,924	-	
Net assets - beginning as restated					326,330,858	330,091,100	686,061	
Net assets - ending					\$ 346,202,703	\$ 350,262,012	\$ 624,383	

The notes to the financial statements are an integral part of this statement.

COUNTY OF BERNALILLO, NEW MEXICO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Grants Fund</u>	<u>Water/ Wastewater Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 64,216,350	\$ -	\$ 23,704,729	\$ 86,686,014	\$ 174,607,093
Bond receivable	-	-	-	11,752,547	11,752,547
Accounts receivable	16,688,139	-	-	1,592,681	18,280,820
Accrued interest receivable	116,874	-	52,431	326,538	495,843
Note receivable	9,479	-	-	-	9,479
Due from other funds	4,503,471	829,162	129,930	167,350	5,629,913
Due from grantor	-	6,105,325	888,314	3,628,026	10,621,665
Inventory	38,271	-	-	-	38,271
Prepaid assets	120,233	-	-	2,076	122,309
Advances to other funds	1,497,000	-	-	431,097	1,928,097
Cash - restricted	-	-	500,000	-	500,000
Total assets	<u>\$ 87,189,817</u>	<u>\$ 6,934,487</u>	<u>\$ 25,275,404</u>	<u>\$ 104,586,329</u>	<u>\$ 223,986,037</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,533,407	\$ 1,730,097	\$ 748,836	\$ 1,631,782	\$ 5,644,122
Retainage payable	-	61,397	151,282	22,963	235,642
TRAN payable	25,000,000	-	-	20,000,000	45,000,000
Accrued payroll	4,036,435	93,093	3,419	112,649	4,245,596
Deferred revenue	7,318,767	456,150	2,214,309	3,105,251	13,094,477
Due to other funds	1,368,257	3,196,750	4,093	1,506,855	6,075,955
Due to grantor	-	-	-	21,609	21,609
Advances from other funds	-	1,397,000	-	100,000	1,497,000
Total liabilities	<u>39,256,866</u>	<u>6,934,487</u>	<u>3,121,939</u>	<u>26,501,109</u>	<u>75,814,401</u>
Fund balances:					
Reserved for:					
Notes receivable	9,479	-	-	-	9,479
Advances to other funds	1,497,000	-	-	431,097	1,928,097
Inventory	38,271	-	-	-	38,271
Prepaid items	120,232	-	-	-	120,232
Debt service	-	-	-	19,867,900	19,867,900
Encumbrances	2,658,618	2,905,922	13,739,434	12,240,893	31,544,867
Subsequent years' expenditures	43,609,351	-	-	-	43,609,351
Unreserved reported in:					
Special revenue fund	-	(2,905,922)	-	6,873,113	3,967,191
Capital projects fund	-	-	8,414,031	38,672,217	47,086,248
Total fund balances	<u>47,932,951</u>	<u>-</u>	<u>22,153,465</u>	<u>78,085,220</u>	<u>148,171,636</u>
Total liabilities and fund balances	<u>\$ 87,189,817</u>	<u>\$ 6,934,487</u>	<u>\$ 25,275,404</u>	<u>\$ 104,586,329</u>	<u>\$ 223,986,037</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF BERNALILLO, NEW MEXICO
 RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balance Governmental Funds (page 25)	\$ 148,171,636
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	478,864,013
Investments in joint ventures are not reported in the Governmental funds.	633,000
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	535,414
Internal service funds are used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	1,601,449
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(285,388,502)
Accrued Interest Payable	(3,919,815)
Recognition of property tax revenue (less allowance for uncollectible accounts) on full accrual basis. Governmental funds recognize property tax revenue on the modified accrual basis.	5,705,508
Net assets governmental activities. (page 23)	<u>\$ 346,202,703</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF BERNALILLO, NEW MEXICO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	General	Grants Fund	Water/ Wastewater Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property	\$ 82,994,330	\$ -	\$ -	\$ 10,539,969	\$ 93,534,299
Sales	35,315,021	-	-	3,410,536	38,725,557
Motor vehicle	3,547,419	-	-	-	3,547,419
Cigarette	4,397	-	-	2,080	6,477
Gas	1,553,716	-	-	-	1,553,716
Intergovernmental	89,531	11,130,190	10,189,413	24,234,741	45,643,875
Licenses and permits	3,056,543	-	-	2,047,886	5,104,429
Fees for services	7,936,720	-	-	3,563,460	11,500,180
Investment income	3,016,253	-	452,320	1,716,012	5,184,585
Miscellaneous	10,215,755	-	-	874,320	11,090,075
Total revenues	147,729,685	11,130,190	10,641,733	46,389,004	215,890,612
EXPENDITURES					
Current:					
General government	32,330,291	637,333	-	2,781,285	35,748,909
Public works	14,109,333	450,123	-	1,348,441	15,907,897
Public safety	63,197,638	5,948,576	-	2,928,927	72,075,141
Health & welfare	1,872,829	1,740,306	-	14,403,416	18,016,551
Culture and recreation	8,082,613	2,425,065	-	449	10,508,127
Capital outlay	-	-	9,234,323	10,602,262	19,836,585
Debt service:					
Principal	185,375	-	-	10,981,806	11,167,181
Interest	-	-	-	14,294,518	14,294,518
Bond issuance cost	-	-	-	329,926	329,926
Total expenditures	119,778,079	11,201,403	9,234,323	57,671,030	197,884,835
Excess (deficiency) of revenues over expenditures	27,951,606	(71,213)	1,407,410	(11,282,026)	18,005,777
Other financing sources (uses)					
Transfers in	3,768,885	71,213	5,204,432	26,230,437	35,274,967
Transfers out	(27,216,717)	-	-	(7,858,250)	(35,074,967)
Proceeds from bond sales	-	-	-	22,210,000	22,210,000
Discount on revenue bond	-	-	-	(16,117)	(16,117)
Total other financing sources (uses)	(23,447,832)	71,213	5,204,432	40,566,070	22,393,883
Net changes in fund balances	4,503,774	-	6,611,842	29,284,044	40,399,660
Fund balance - beginning	41,979,016	-	15,541,623	48,955,077	106,475,716
Restatement	1,450,161	-	-	(153,901)	1,296,260
Fund balance as restated	43,429,177	-	15,541,623	48,801,176	107,771,976
Fund balance - ending	\$ 47,932,951	\$ -	\$ 22,153,465	\$ 78,085,220	\$ 148,171,636

The notes to financial statements are an integral part of this statement.

COUNTY OF BERNALILLO, NEW MEXICO
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances total governmental funds (page 27)	\$ 40,399,660
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(46,617)
The net effect of sale of capital assets is to increase net assets. In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold.	(8,961,182)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	509,598
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(10,696,776)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(1,332,838)
Change in net assets of governmental activities (page 24)	<u>\$ 19,871,845</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF BERNALILLO , NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP Budgetary Basis)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Taxes:				
Property	\$ 81,206,370	\$ 80,942,667	\$ 82,320,408	\$ 1,377,741
State shared gross receipts	32,800,000	33,645,875	35,131,344	1,485,469
Motor vehicle	3,545,478	3,545,478	3,547,276	1,798
Cigarette	3,700	3,700	4,786	1,086
Gas	1,524,794	1,524,794	1,535,460	10,666
Intergovernmental	-	-	89,531	89,531
Payments in lieu of taxes	75,915	75,915	126,871	50,956
Licenses and permits	2,546,900	2,621,900	2,335,786	(286,114)
Fees for services	7,765,105	7,372,390	8,335,144	962,754
Investment income	4,353,334	5,137,238	3,462,169	(1,675,069)
Miscellaneous income	594,216	5,910,216	10,025,703	4,115,487
Total revenues	<u>134,415,812</u>	<u>140,780,173</u>	<u>146,914,478</u>	<u>6,134,305</u>
Other financing sources				
Transfers in	3,693,622	4,461,693	3,770,495	(691,198)
Sale of capital assets	100,000	100,000	32,784	(67,216)
Total other financing sources	<u>3,793,622</u>	<u>4,561,693</u>	<u>3,803,279</u>	<u>(758,414)</u>
Total revenue and other financing sources	138,209,434	145,341,866	150,717,757	5,375,891
Prior year cash balance budgeted	25,226,772	29,827,169		
Total budget	<u>163,436,206</u>	<u>175,169,035</u>		
Expenditures				
Current:				
General government:				
County commission	496,035	492,945	459,901	33,044
County manager	1,137,262	1,171,556	1,157,270	14,286
Public information	409,895	426,458	413,055	13,403
Information technology	6,921,928	6,194,774	6,274,855	(80,081)
Finance and administration	6,759,884	6,206,944	5,192,215	1,014,729
General county	11,623,774	16,407,555	5,741,145	10,666,410
Human resources	1,057,400	1,065,899	974,355	91,544
Zoning	2,014,546	2,087,107	2,066,797	20,310
Legal	1,221,515	1,195,399	985,382	210,017
County clerk	2,798,771	3,459,790	3,360,438	99,352
Assessor/reappraisal	2,450,242	2,466,233	2,435,918	30,315
Treasurer	1,646,427	1,677,238	1,669,371	7,867
Other	1,368,467	1,445,921	1,268,285	177,636
Total general government	<u>39,906,146</u>	<u>44,297,819</u>	<u>31,998,987</u>	<u>12,298,832</u>
Public works	15,143,262	15,140,020	14,165,760	974,260
Public safety:				
Fire	7,799,273	7,722,432	7,558,984	163,448
Sheriff	21,699,315	22,584,927	22,896,204	(311,277)
Animal care & regulation	789,683	805,397	686,876	118,521
Juvenile detention center	5,519,416	5,529,905	5,517,935	11,970
Metropolitan detention center	33,228,394	38,352,394	36,423,284	1,929,110
Communications department	2,063,919	1,943,298	1,992,013	(48,715)
Total public safety	<u>71,100,000</u>	<u>76,938,353</u>	<u>75,075,296</u>	<u>1,863,057</u>
Culture and recreation	9,207,333	8,939,747	7,785,553	1,154,194
Health & welfare	2,140,969	2,111,696	1,872,765	238,931
Debt service				
Principal	245,895	245,895	185,375	60,520
Total expenditures	<u>137,743,605</u>	<u>147,673,530</u>	<u>131,083,736</u>	<u>16,589,794</u>
Other financing uses				
Transfers out	25,692,601	27,495,505	27,216,717	278,788
Total expenditures and other financing uses	<u>163,436,206</u>	<u>175,169,035</u>	<u>158,300,453</u>	<u>16,868,582</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			<u>\$ (7,582,696)</u>	

The notes to the financial statements are an integral part of this statement.

COUNTY OF BERNALILLO, NEW MEXICO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	<u>Business-type Activities</u> <u>Enterprise Funds</u> <u>Total</u> <u>Nonmajor</u>	<u>Governmental</u> <u>Activities-</u> <u>Internal</u> <u>Service Funds</u>
ASSETS		
Current assets:		
Cash and investments	\$ 1,245,257	\$ 1,601,449
Accounts receivable, net	959,843	-
Accrued interest receivable	1,587	-
Due from other funds	490,400	378,828
Prepaid assets	-	988,516
Total current assets	<u>2,697,087</u>	<u>2,968,793</u>
Noncurrent assets:		
Restricted cash and cash equivalents	110,696	-
Capital assets:		
Land	426,500	-
Buildings	2,858,603	-
Construction in progress	415,309	-
Equipment, machinery, and furniture	1,686,882	-
Less accumulated depreciation	<u>(2,492,780)</u>	<u>-</u>
Total noncurrent assets	<u>3,005,210</u>	<u>-</u>
Total assets	<u>5,702,297</u>	<u>2,968,793</u>
LIABILITIES		
Current liabilities:		
Accounts payable	237,069	378,828
Compensated absences payable	173,429	-
Accrued payroll	95,525	-
Due to other funds	400,800	-
Deferred revenue	<u>299,516</u>	<u>988,516</u>
Total current liabilities	<u>1,206,339</u>	<u>1,367,344</u>
Noncurrent liabilities:		
Deposits held in trust for others	5,552	-
Advance from other funds	<u>431,097</u>	<u>-</u>
Total noncurrent liabilities	<u>436,649</u>	<u>-</u>
Total liabilities	<u>1,642,988</u>	<u>1,367,344</u>
NET ASSETS		
Invested in capital assets	2,894,514	-
Unrestricted	<u>1,164,795</u>	<u>1,601,449</u>
Total net assets	<u>\$ 4,059,309</u>	<u>\$ 1,601,449</u>

The notes to the financial statements are an integral part of this statement.

**COUNTY OF BERNALILLO, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004**

	<u>Business-type Activities - Enterprise Funds Total Nonmajor</u>	<u>Governmental Activities- Internal Service Funds</u>
Operating revenues:		
Administrative and service fees	\$ 5,765,699	\$ 3,167,518
Rental income:		
Tenants	31,307	-
Other income	296,985	-
Total operating revenues	<u>6,093,991</u>	<u>3,167,518</u>
Operating expenses:		
Salaries and wages	2,671,706	-
Contractual services	2,332,338	3,167,518
Materials and supplies	468,891	-
Other services and charges	475,992	-
Landfill expenses	65,036	-
Grant expenditures	300,763	-
Depreciation	113,648	-
Total operating expenses	<u>6,428,374</u>	<u>3,167,518</u>
Operating income (loss)	<u>(334,383)</u>	<u>-</u>
Non-operating revenues:		
Interest income	5,175	-
Operating grants	708,896	-
County contributions	119,379	-
Total nonoperating revenue	<u>833,450</u>	<u>-</u>
Income before transfers out	499,067	-
Transfers out	<u>(200,000)</u>	<u>-</u>
Change in net assets	299,067	-
Total net assets - beginning	3,931,578	1,601,449
Prior period adjustment	(171,336)	-
Total net assets - beginning as restated	<u>3,760,242</u>	<u>1,601,449</u>
Total net assets - ending	<u>\$ 4,059,309</u>	<u>\$ 1,601,449</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF BERNALILLO, NEW MEXICO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Business-type Activities- Enterprise Funds Total Nonmajor	Governmental Activities- Internal Service Funds
Cash flows from operating activities:		
Cash received from administration and service fees	\$ 5,979,871	\$ 3,167,518
Cash received from rents	45,972	-
Cash payments to employees for services	(1,926,400)	-
Cash payments to vendors for goods and services	(4,359,981)	(3,168,157)
Miscellaneous cash received	256	-
Net cash used by operating activities	<u>(260,282)</u>	<u>(639)</u>
Cash flows from noncapital and related financing activities:		
Operating grants/subsidies received	67,687	-
Contributions from other funds	19,697	-
Operating transfers out from other funds	(200,000)	-
Payments to other funds	(295,851)	-
Net cash used by noncapital financing activities	<u>(408,467)</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(455,003)	-
Capital grants received	641,209	-
Net cash provided by capital and related financing activities	<u>186,206</u>	<u>-</u>
Cash flows from investing activities:		
Interest received on investments	3,750	-
Net decrease in cash and cash equivalents	(478,793)	(639)
Cash and cash equivalents, beginning of year	1,834,746	1,602,088
Cash and cash equivalents, end of year	<u>\$ 1,355,953</u>	<u>\$ 1,601,449</u>
Reconciliation of operating loss to net cash flows used by operating activities:		
Operating income (loss)	\$ (334,383)	\$ -
Adjustments to reconcile operating income to net cash flows:		
Depreciation expense	113,648	-
(Increase) decrease in:		
Accounts receivable	(291,885)	-
Allowance for uncollectable accounts	209,200	-
Prepaid expenses	-	113,458
Deposits held in trust	147	-
Increase (decrease) in:		
Deferred revenue	13,370	(113,458)
Accounts payable	19,514	(10,760)
Due to other funds	7,536	10,121
Tenants payable	226	-
Accrued compensated absences	2,345	-
Net cash flows used by operating activities	<u>\$ (260,282)</u>	<u>\$ (639)</u>

The notes to the financial statements are an integral part of this statement.

**COUNTY OF BERNALILLO, NEW MEXICO
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2004**

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 7,056,908
Receivables:	
Property taxes	22,054,263
Other	<u>1,326,294</u>
Total assets	<u>\$ 30,437,465</u>
 LIABILITIES	
Deposits held in trust for others	\$ 8,383,202
Future collectable	<u>22,054,263</u>
Total liabilities	<u>\$ 30,437,465</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF BERNALILLO, NEW MEXICO
STATEMENT OF CASH FLOWS
COMPONENT UNIT - REDEVELOPMENT CORPORATION
Year Ended June 30, 2004

Cash flows from operating activities:	
Cash received from rents	\$ 95,356
Cash payments to employees for services	(57,295)
Cash payments to vendors for goods and services	(100,681)
Miscellaneous cash received	1,233
Net cash used by operating activities	<u>(61,387)</u>
Cash flows from noncapital and related financing activities:	
Operating grants/subsidies received	230,634
Operating transfers-out from other funds	(550)
Net cash provided by noncapital and related financing activities	<u>230,084</u>
Cash flows from capital and related financing activities:	
Principal paid on bond maturities	(35,000)
Interest paid on bond maturities	(110,273)
Acquisition of capital assets	(1,492)
Net cash applied to capital and related financing activities:	<u>(146,765)</u>
Cash flows from investing activities:	
Interest received on investments	2,558
Net cash provided by investing activities	<u>2,558</u>
Net increase in cash and cash equivalents	24,490
Cash and cash equivalents, beginning of year	<u>366,434</u>
Cash and cash equivalents, end of year	<u>\$ 390,924</u>
Reconciliation of operating loss to net cash flows used by operating activities	
Operating (loss)	\$ (184,577)
Adjustments to reconcile net (loss) to net cash flows:	
Depreciation	122,902
(Increase) decrease in:	
Accounts receivable	(140)
Increase (decrease) in:	
Deferred revenue	(280)
Accounts payable	2,991
Due to other funds	(1,650)
Tenants payable	(633)
Net cash flows used by operating activities	<u>\$ (61,387)</u>

The notes to the financial statements are an integral part of this statement.



NOTES TO FINANCIAL STATEMENTS



COUNTY OF BERNALILLO, NEW MEXICO
CONTENTS
NOTES TO THE FINANCIAL STATEMENTS

Note	Title	Page
I.	Summary of significant accounting policies	35
A.	Reporting entity	31
B.	Government-wide and fund financial statements	32
C.	Measurement focus, basis of accounting and financial statement presentation	33
D.	Assets, liabilities, and net assets or equity	35
1.	Deposits and investments	35
2.	Receivables	36
3.	Inventories	36
4.	Restricted assets	36
5.	Capital assets	36
6.	Compensated absences	37
7.	Long-term obligations	37
8.	Net assets	38
9.	Fund equity reservations and designations	38
10.	Cash flows	39
11.	Bond discounts/issuance costs	39
12.	Presentation	39
13.	Use of estimates	39
14.	Restatement of fund balance/net assets	39
II.	Reconciliation of government-wide and fund financial statements	
A.	Explanations of certain differences between the governmental fund balance sheet and the government-wide statement of net assets	39
B.	Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities	40
III.	Stewardship, compliance and accountability	
A.	Budgetary information	41
B.	Deficit fund equity	43
IV.	Detailed notes on all funds	
A.	Cash and investments	43
B.	Receivables	45
C.	Capital assets	46
D.	Interfund receivables, payables, and transfers	48
E.	Leases	49
F.	Long-term debt	50
G.	Short-term debt	54
H.	Special assessment bonds	55
I.	Conduit debt obligations	56
J.	Reserve fund balance	57
K.	Financial data schedule reconciliation	57
L.	Prior period adjustment	
V.	Other Information	
A.	Risk management	57
B.	Subsequent events	59
C.	Contingencies	59
D.	Joint ventures	60
E.	Retiree Health Care Act	61
F.	Public Employees Retirement Association	62
G.	Investments at the State Treasurer Local Government Investment Pool	63



**COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

I. Summary of significant accounting policies

The financial statements of the County of Bernalillo (County) have been prepared in conformity with generally accepted accounting principles as applied to governmental entities. The significant governmental accounting policies are described below.

A. Reporting entity

The County was established by the laws of the Territory of New Mexico of 1876, under the provisions of the act now referred to as Section 4-1-1 of the New Mexico Statutes Annotated, 1978 Compilation. The County operates under the commission-manager form of government and provides the following services as authorized in the grant of powers: public safety (sheriff, fire, emergency medical, etc.), highways and streets, sanitation, health and social services, low rent housing assistance, culture-recreation, public improvements, planning and zoning, and general administration services.

The County's basic financial statements include all activities and accounts of the County's "financial reporting entity."

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government if they are unable to adopt a budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

The financial statements of the Bernalillo County Housing and Redevelopment Corporation (a New Mexico Not-for-Profit Corporation) have been included in the County's combining and combined financial statements as a "discretely presented" component unit. The Bernalillo County Housing and Redevelopment Corporation's (Corporation) governing body is the Bernalillo County Commissioners and is legally separate from the County. All financial operations are under the control of the Bernalillo County Housing Department.

The Corporation was established to provide low rent housing facilities in accordance with the provisions of the United States Housing Act of 1936. The Corporation, with approval of the Commission, has the right to issue, sell and deliver revenue bonds; encumber real estate; and to enter into contracts for the sale of bonds, construction or acquisition of low rent housing facilities. Such bonds, notes, certificates of indebtedness, and obligations shall not constitute a statutory or charter debt limitation or restriction. The Commission will accept title to, or other interest in, any real or personal property upon dissolution of the Corporation at the time final payment is made on authorized obligations to the extent permitted under the laws of the State of New Mexico.

There were no other component units during the fiscal year ended June 30, 2004. Complete financial statements for the Corporation can be obtained from the entity's administrative offices.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures, generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is made.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the County.

The County reports the following major governmental funds:

The *General fund* is the County's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Grant fund* accounts for various federal, state and other grant funding sources received by the County. The grants are restricted to specific purposes as agreed to between the County and the funding source as enumerated in the grant agreement/contract.

The *Water/Wastewater fund* accounts for various federal, state and other funding sources received by the County for water/wastewater project planning, design, and construction.

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Additionally, the government reports the following fund types

Internal service funds account for operations that provide services to other departments or agencies of the County on a cost-reimbursement basis. The County's internal service fund is the Risk Management fund, which is used to account for its risk management activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's risk management and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and/or delivering goods in connection with proprietary fund's principal ongoing operations. Approximately 84% of the operating revenues of the County's four proprietary funds consist of user and administrative fees.

The modified accrual basis of accounting is followed by the governmental fund types and agency funds for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period (amounts collected within 60 days after year end).

Those revenues susceptible to accrual are property taxes, gross receipts taxes, state shared taxes, investment income and charges for services. Grant revenues are recognized as revenues when the related costs are incurred. All other revenues are recognized when they are received and are not susceptible to accrual, because they are usually not measurable until payment is actually received. Expenditures are recorded as liabilities when they are incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The County reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the County before it has legal claim to them, as when grant monies are received prior to the incurrance of qualifying expenditures. In subsequent periods when both revenue recognition criteria methods are met or when the County has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are recorded.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

Investments in the County's cash and investment pool are stated at cost, which approximates fair value except for GNMA's and PEFCO's which are recorded at fair market value using quoted market prices for financial statement purposes. Interest income, realized gains and losses on investment transactions, and amortization of premiums/discounts on investment purchases are included for financial statement purposes as investment income and are allocated to participating funds based on the specific identification of the source of funds for a given investment.

State Statute Sections 6-10-44 and 6-10-10(f), NMSA 1978, as amended, authorize the County Treasurer to invest in United States Treasury certificates, United States Treasury bonds or negotiable securities of the United States, bonds or negotiable securities of the State of New Mexico or of any county, municipality, or school district and yield maintenance repurchase agreements with the advice and consent of the County Board of Finance. The Treasurer's investment procedures must be consistent with Bernalillo County Investment Policy (Amended Resolution No. 60-93).

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year that are expected to be paid back within the year are referred to as "due to/from other funds." Lending/borrowing arrangements not expected to be paid back within the year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances."

**COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 6.0% of outstanding property taxes at June 30, 2004.

The County is responsible for assessing, collecting and distributing property taxes for other governmental entities and its own operational and debt service purposes. Property taxes are assessed on November 1 of each year based on the assessed value on the prior January 1 and are payable in two equal installments by November 10 of the year in which the tax bill is prepared and by April 10 of the following year. Property taxes are delinquent if not paid by December 10 and May 10. Taxes on real property are a lien from January 1 of the year for which the taxes are imposed. Collections and remittance of County property taxes are accounted for in the County Treasurer Agency Funds. The billings are considered past due 60 days after the respective tax billing date, at which time the applicable property is subject to lien, and penalties and interest are assessed.

3. Inventories and prepaid items

The inventories in the general fund consist of fuel, vehicle parts, and fluids. Inventories are recorded using first-in, first-out cost method. The costs of inventories in governmental fund types are recorded as expenditures when purchased; therefore, the inventory amount is not available for appropriation.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain long-term assets in the Enterprise funds and the component unit are classified as restricted assets on the balance sheet because their use is limited to payments for debt service or other purposes such as "deposits held in trust for others."

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$1,000 and estimated useful life in excess of one year. Purchased or constructed assets are recorded at historical cost or estimated cost. Donated capital assets are recorded as estimated fair market value at the date of the donation.

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	10-80
Buildings and other improvements	15-40
Machinery and equipment	5-10

6. *Compensated absences*

County employees may accumulate limited amounts of vacation pay which 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 earned.

County employees may accumulate limited amounts of sick leave. For governmental funds, expenditures are recognized during the period in which sick leave costs become payable from available, expendable resources. For proprietary funds, sick leave costs are recognized when vested or taken, whichever occurs first.

7. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

8. Net Assets

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as follows:

Investment in capital assets, net of related debt – This category reflects the portion of net assets that are associated with capital assets less outstanding capital asset related debt.

Restricted net assets – This category reflects the portion of net assets that have third party limitations on their use.

Unrestricted net assets – This category reflects net assets of the County, not restricted for any project or other purpose.

9. Fund Equity Reservation and Designations

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted. Designations represent tentative managerial plans that are subject to change. Fund equity was reserved or designated for:

Reserved for debt service - Amounts legally restricted for the payment of long-term debt.

Reserved for inventory - Segregates a portion to indicate that although supplies inventory is an asset, it does not represent an available, spendable resource.

Reserved for note receivable - Segregates a portion to indicate that although the notes receivable is an asset, it does not represent an available, spendable resource.

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

Reserved for prepaid items - Segregates a portion to indicate that although prepaid items are an asset, it does not represent an available, spendable resource.

Reserved for encumbrances - Represents the amounts that were budgeted as current year expenditures, which were unspent at year-end and which were encumbered and rebudgeted for the subsequent year.

Reserved for subsequent years' expenditures - Represents the amounts, other than carryover expenditures, that are required to be designated for subsequent years' expenditures.

Unreserved, undesignated – Amounts which have not been reserved or designated for any purpose. These funds are available for unrestricted usage by the County.

**COUNTY OF BERNALILLO, NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2004**

10. Cash Flows

For purposes of the Statement of Cash Flows, the various enterprise funds consider all highly liquid assets (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

11. Bond Premiums/Issuance Costs

In governmental fund types, bond premiums and issuance costs are recognized in the current period. Bond premiums are presented, separately as other financing sources.

12. Presentation

Certain reclassifications of prior year information have been made to conform to current year presentation.

13. Use of Estimates

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 period. Actual results could differ from those estimates.

II. 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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets –governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

Bonds and bond anticipation notes payable	\$ (275,603,940)
Capital leases payable	(1,774,674)
Compensated absences	(8,009,888)
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ (285,388,502)</u>

**COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that, “Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this difference are as follows:

Capital outlay	\$ 19,836,585
Expenses- general government	1,069,939
Depreciation expense	<u>(20,953,141)</u>
Net adjustment to decrease net changes in fund balances – total Governmental funds to arrive at changes in net assets of Governmental activities	<u>\$ (46,617)</u>

Another element of that reconciliation states that, “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The details of this difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bond	\$ (22,210,000)
Bond issuance cost	346,043
Principal repayments:	
General obligation and revenue bonds	10,981,806
Capital leases	<u>185,375</u>
Net adjustment to decrease net changes in fund balances – Total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (10,696,776)</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this difference are as follows:

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Compensated absences	\$ (865,030)
Accrued interest	(355,755)
Deferred charges	(78,236)
Amortization of issuance cost	(33,817)
Net adjustment to decrease net changes in fund balances – total Governmental funds to arrive at changes in net assets of Governmental activities	\$ (1,332,838)

III. Stewardship, compliance and accountability

A. Budgetary information

Actual amounts on the budgetary basis financial statements are prepared on the cash basis of accounting which recognizes revenues when received and expenditures when paid. Annual budgets are adopted for the general, most special revenue, and debt service funds. The proprietary funds, internal service fund, and the following governmental funds did not adopt annual operating budgets during the current fiscal year:

Special Revenue:	Debt Service:
Grants	Series 1996 Reserve
Farm and Range	Series 1996B Reserve
Public Works Grants	Series 1997 Reserve
Section 8 Housing – Vouchers	Refunding Series 1998 Reserve
Sheriff’s Investigative Fund	Series 1999 Reserve
Law Enforcement Block Grants	All Capital Projects Funds
	Component Unit - Redevelopment Corporation

Budget amounts for Capital Projects Funds and certain Special Revenue Funds are individual project budgets authorized by the County Commission for the entire length of the project. The County Manager has administrative authority to make line item changes within a specific capital project without County Commission approval if the total change does not exceed 10 percent of the original budget. Once the County Commission has approved grant applications for projects, the County Manager is authorized to expend any funds awarded as a result of the grant application.

The County Manager is responsible for preparing the budget from requests submitted by division directors. The appropriated budget is prepared by line item within object class, program, department and fund; revenues expected to be available are estimated to provide for balanced budgeting. The comprehensive budget package is brought before the County Commissioners for approval by resolution. The proposed budget is then submitted by June 1 to the New Mexico Department of Finance and Administration Local Government Division (DFA) for approval. DFA certifies a pending budget by July 1 with final certification of the

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding. Based on the final certified budget submitted, DFA certifies the allowable tax rates for property taxes in September.

Transfers of appropriations within a fund may be made with cognizant Division Director or elected official approval. Increases or decreases in the budget of a fund or transfers of appropriations between funds must be presented to the County Commission for approval by resolution and must subsequently have DFA approval. Amendments made to the original budget are included in the budgetary comparison statements of this report, which reflect actual to budget.

Budgets and amendments to the budgets for all funds are adopted in a legally permissible manner. The legal level of budgetary control is the fund level. Expenditures may not legally exceed budgeted appropriations at the fund level except for the following funds, whose legal level of budgetary authority is at the program or district level:

Emergency Medical Services
 Fire Districts

All outstanding encumbrances must be rebudgeted in the next year's budget. During the year, several supplementary appropriations were necessary.

Budgetary compliance – non GAAP financial statements

The County prepares its annual budget on a non-GAAP basis of accounting as described above. A reconciliation of the general fund non-GAAP statement to the GAAP statement is as follows:

	General Fund
Net changes in fund balance – GAAP basis	\$ 4,503,774
(Increases) decreases in assets:	
Accounts receivable	178,951
Due to/from other funds	(749,718)
Accrued interest	354,943
Inventory	1,221
Prepaid	(23,505)
Increase (decrease) in liabilities:	
Accounts payable	(13,694,569)
Deferred revenue	(308,850)
Accrued payroll	704,895
Prior period adjustment	1,450,162
Net changes in fund balance – Budget to Actual	<u>\$ (7,582,696)</u>

**COUNTY OF BERNALILLO, NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2004**

B. Deficit fund equity

There is a deficit fund balance in the Series 1997 and 1999 Series Debt Service Funds in the amount of \$200,150 and \$43,649 respectively. Subsequent fiscal year General Fund revenue transfers and interest revenues generated from the 1997 and 1999 Debt Service Reserve Fund will cover the deficits in these funds. There is unreserved/undesignated deficit fund balance in the Public Works Grants Fund and in the Law Enforcement Block Grant Fund in the amount of \$491,349 and \$23,072 respectively. The deficit fund balances are primarily attributed to large encumbrance balances at year-end. The County expects to bill the granting agency in the future to cover the deficits in these funds. There is deficit fund balance of \$42 in the Clerk's Bilingual fund. The County will transfer sufficient funds from the General Fund in FY05 to cover the deficit and to close out this fund. There is a deficit net asset balance of \$16,655 in the Solid Waste Fund. The County expects that FY05 operating revenues will be sufficient to cover the deficit.

IV. Detailed notes on all funds

A. Cash and investments

The County's deposits are categorized to give an indication of the level of risk assumed by the County at year-end. Category 1 includes deposits that are insured. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the County's name. Category 3 represents uncollateralized deposits, of which the County has none.

	Category		Bank	Book
	1	2	Balance	Balance
Bank accounts	\$ 800,000	\$ 4,612,233	\$ 5,412,233	\$ 2,576,190

The County's investments are categorized to give an indication of the level of risk assumed by the County at year-end. Category 1 includes investments that are registered, or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured or unregistered investments, or for which securities are held by the counterparty's trust department or agent in the County's name. Category 3 represents uninsured and unregistered investments, not held in the County's name. The County does not have Category 3 investments. The categories of the County's investments at June 30, 2004, were as follows:

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

	Category		Carrying Amount	Fair Market Value
	1	2		
Certificates of Deposit	\$ 32,427,380	\$ -	\$ 32,427,380	\$ 32,427,380
Flexible Repurchase Agreements	-	47,234,079	47,234,079	47,234,079
GNMA Pool	12,680,854	-	12,680,854	12,435,280
PEFCO Bonds	2,198,300	-	2,198,300	2,201,200
	<u>\$ 47,306,534</u>	<u>\$ 47,234,079</u>	<u>94,540,613</u>	<u>94,297,939</u>
Investment in State Treasurer's Investment Pool			92,000,000	92,000,000
Total investments			<u>\$186,540,613</u>	<u>\$186,297,939</u>

A reconciliation of cash and investments for the County follows:

Bank accounts	\$ 2,576,190
Petty cash on hand	1,520
Reconciling items	(3,605,996)
Carrying amount of investments	186,540,613
Total cash and investments	<u>\$ 185,512,327</u>

Statement of Net Assets

Cash and investments:	
Primary Government	\$177,453,799
Component Unit	164,721
Restricted assets:	
Primary Government	610,696
Component Unit	226,203
Statement of Fiduciary Net Assets	7,056,908
Total cash, investment and restricted assets	<u>\$185,512,327</u>

The County 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). The pledged collateral is stated at market value as of June 30, 2004. Investments held at the State Investment Pool are monitored by the State Treasurer's Office and the State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits.

**COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

B. Receivables

	Taxes	Other	Allowance for Uncollectable Accounts	Net Receivables
Governmental Funds:				
Major Funds:				
General Fund	\$ 14,810,280	\$ 2,535,838	\$ 657,979	\$ 16,688,139
Nonmajor Funds	1,630,421	51,889	89,629	1,592,681
Total governmental activity funds	<u>16,440,701</u>	<u>2,587,727</u>	<u>747,608</u>	<u>18,280,820</u>
Business-type activities:				
Enterprise Funds	-	2,137,398	1,177,555	959,843
Component Unit:				
Redevelopment Corporation	-	704	-	704
Agency Funds	23,560,388	1,326,294	1,506,125	23,380,557
Total Receivables	<u>\$ 40,001,089</u>	<u>\$ 6,052,123</u>	<u>\$ 3,431,288</u>	<u>\$ 42,621,924</u>

Note receivable

On April 16, 1991, the County Commission approved a \$100,000 loan to American G.I. Forum for the purpose of providing housing services to very low-income residents of Bernalillo County. The note is secured by a mortgage on certain real property owned by the American G.I. Forum. The repayment schedule was 24 monthly installments of \$4,166 bearing no interest. The American G.I. Forum did not make the payments as scheduled. Subsequent agreements between the County and the Forum amended the scheduled payment amount and provided for interest to be paid. The latest revision dated December 16, 1997 provides for the Forum to make \$800 monthly payments, including interest at 2.625% adjusted annually to match the current average interest rate for five-year Treasury Notes. The balance on this note was \$9,478 at June 30, 2004.

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

C. Capital assets

Capital asset activity for the year was as follows:

	Balance		Balance	
	June 30,2003	Increases	Decreases	June 30, 2004
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 124,501,275	\$ 3,900,083	\$ (7,734,560)	\$ 120,666,798
Construction in progress	14,615,312	12,404,474	(15,753,438)	11,266,348
Art	1,420,712	3,800	-	1,424,512
Total capital assets, not being depreciated	140,537,299	16,308,357	(23,487,998)	133,357,658
Capital assets, being depreciated:				
Buildings	231,942,111	4,095,528	(7,650)	236,029,989
Machinery and equipment	60,666,161	3,188,380	(1,523,150)	62,331,391
Infrastructure	186,343,476	13,449,797	(1,439,027)	198,354,246
Leasehold improvements	2,804,000	-	-	2,804,000
Total capital assets being depreciated	481,755,748	20,733,705	(2,969,827)	499,519,626
Less Accumulated depreciation for:				
Buildings	(37,407,922)	(9,298,442)	77	(46,706,287)
Machinery and equipment	(46,463,250)	(5,059,575)	1,503,195	(50,019,630)
Infrastructure	(50,698,496)	(6,482,964)	239,933	(56,941,527)
Leasehold improvements	(233,667)	(112,160)	-	(345,827)
Total accumulated depreciation	(134,803,335)	(20,953,141)	1,743,205	(154,013,271)
Total capital assets, being depreciated, net	346,952,413	(219,436)	(1,226,622)	345,506,355
Governmental activities capital assets, net	\$ 487,489,712	\$ 16,088,921	\$ (24,714,620)	\$ 478,864,013

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 432,002	\$ -	\$ (5,502)	\$ 426,500
Construction in progress	-	409,807	5,502	415,309
Total capital assets, not being depreciated	432,002	409,807	-	841,809
Capital assets, being depreciated:				
Buildings	2,852,987	5,616	-	2,858,603
Machinery and equipment	1,646,754	40,128	-	1,686,882
Total capital assets being depreciated	4,499,741	45,744	-	4,545,485
Less accumulated depreciation for:				
Buildings	(771,801)	(66,420)	-	(838,221)
Machinery and equipment	(1,607,331)	(47,228)	-	(1,654,559)
Total accumulated depreciation	(2,379,132)	(113,648)	-	(2,492,780)
Total capital assets, being depreciated, net	2,120,609	(67,904)	-	2,052,705
Business-type activities capital assets, net	\$ 2,552,611	\$ 341,903	\$ -	\$ 2,894,514

	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
Business-type activities:				
Component Unit:				
Capital assets, not being depreciated:				
Land	\$ 44,563	\$ -	\$ (7,711)	\$ 36,852
Capital assets, being depreciated:				
Buildings	2,542,972	9,202	-	2,552,174
Machinery and equipment	5,130	-	-	5,130
Total capital assets, being depreciated	2,548,102	9,202	-	2,557,304
Less accumulated depreciation for:				
Buildings	(356,059)	(121,876)	-	(477,935)
Machinery and equipment	(257)	(1,026)	-	(1,283)
Total accumulated depreciation	(356,316)	(122,902)	-	(479,218)
Total capital assets, being depreciated, net	2,191,786	(113,700)	-	2,078,086
Business-type activities capital assets, net	\$ 2,236,349	\$ (113,700)	\$ (7,711)	\$ 2,114,938

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

Governmental activities:	
General government	\$ 2,306,220
Public safety	9,907,711
Culture and recreation	728,066
Public works	7,285,530
Health and welfare	725,614
Total depreciation expense-governmental activities	<u>\$ 20,953,141</u>

**COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Business-type activities:	
Solid waste	\$ 9,093
Housing Authority	61,137
Seybold Village	43,418
Total depreciation expense-business-type activities	<u>\$ 113,648</u>

Depreciation expense was charged to component unit as follows:

Business-types activities, component unit:	
Redevelopment Corporation	<u>\$ 122,902</u>

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2004, is as follows:

	Due from Other Funds	Due to Other Funds
Governmental funds:		
Major funds		
General Fund	\$ 4,503,471	\$ 1,368,257
Grants Fund	829,162	3,196,750
Water/Wastewater	129,930	4,093
Total major funds	<u>5,462,563</u>	<u>4,569,100</u>
Nonmajor funds	167,350	1,506,855
Nonmajor enterprise funds	490,400	400,800
Internal service funds:		
Risk Management Fund	378,828	-
Component unit:		
Redevelopment Corporation	550	22,936
	<u>\$ 6,499,691</u>	<u>\$ 6,499,961</u>

Advances. For the purpose of financing cost-reimbursement grants, the general fund advanced the grants fund \$1,397,000 and the public works grants fund \$100,000. The environmental fund financed the initial start-up of the solid waste fund through an advance of which \$431,097 is outstanding at June 30, 2004.

**COUNTY OF BERNALILLO, NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2004**

During the year, the County makes various transfers of monies to fund debt service payments, capital projects, and to reimburse the General fund for cost incurred on behalf of other funds. Interfund transfers for the year ended June 30, 2004 were as follows:

	Transfers From	Transfers To
Governmental funds:		
Major funds:		
General Fund	\$ 3,768,885	\$ 27,216,717
Grants Fund	71,213	-
Water/Wastewater	5,204,432	-
Nonmajor funds	26,230,437	7,858,250
Enterprise funds	-	200,000
Total transfers	<u>\$ 35,274,967</u>	<u>\$ 35,274,967</u>

E. Leases

Capital Leases

The County is obligated to the State of New Mexico, under certain leases that are accounted for as capital leases. The County does not pay interest on the capital lease obligation. Assets under capital leases totaled \$2,695,850 at June 30, 2004. The following is a schedule of the future minimum lease payments under capital leases at June 30, 2004:

	Amount
2005	\$ 212,282
2006	212,282
2007	212,282
2008	212,282
2009	212,282
2010-2014	713,264
Total minimum lease payments	<u>\$ 1,774,674</u>

Operating Leases

During the fiscal year ended June 30, 2004, the County leased equipment, and office space under operating leases. The County's expenditures on those leases for the fiscal year ended June 30, 2004, were \$1,413,706. The County's future minimum rental commitments, accounted for as operating leases at June 30, 2004, are as follows:

**COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

	Amount
2005	\$ 1,379,829
2006	3,000
2007	3,000
2008	3,000
2009	3,000
Total	<u>\$ 1,391,829</u>

The County shares building expense on One Civic Plaza (City/County Building) on a year-to-year basis. A joint City/County annual operating budget for the building is established one month prior to the commencement of the fiscal year.

During the year, the County, as lessor, leased various office spaces at a cost of approximately \$2.24 million and a carrying amount of \$1.73 million under operating leases. Rental revenue was \$194,733 and depreciation expense on those assets was \$86,169.

F. Long-term debt

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Balance			Balance	Amounts
	June 30, 2003	Additions	Deletions	June 30, 2004	Due within
					One Year
Governmental Activities:					
Bonds and notes payable:					
G.O. bonds	\$ 77,155,000	10,210,000	\$ (3,450,000)	\$ 83,915,000	\$ 4,465,000
Revenue bonds	184,910,378	12,000,000	(4,685,378)	192,225,000	4,885,000
Long-term note	2,846,428	-	(2,846,428)	-	-
Deferred amounts:					
Bond premiums	23,054		(1,795)	21,259	-
Bond discounts		(16,117)	806	(15,311)	-
Refunding	(619,438)		77,430	(542,008)	-
Total bonds and Notes payable	<u>264,315,422</u>	<u>22,193,883</u>	<u>(10,905,365)</u>	<u>275,603,940</u>	<u>9,350,000</u>
Other liabilities:					
Capital leases	1,577,949	382,100	(185,375)	1,774,674	212,280
Compensated absences	7,144,858	5,199,579	(4,334,549)	8,009,888	1,112,137
Governmental activity Long-term liabilities	<u>\$ 273,038,229</u>	<u>\$ 27,775,562</u>	<u>\$ (15,425,289)</u>	<u>\$ 285,388,502</u>	<u>\$ 10,674,417</u>

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

	Balance			Amounts	
	June 30, 2003	Additions	Deletions	Balance June 30, 2004	Due within One Year
Business-type Activities:					
Enterprise funds:					
Compensated absences	\$ 171,085	\$ 164,412	\$ (162,068)	\$ 173,429	\$ 9,556
Component Unit:					
Bonds payable	\$ 1,885,000	\$ -	\$ (35,000)	\$ 1,850,000	\$ 35,000

Compensated absences for governmental activities are generally liquidated by the general fund.

General Obligation Bonds are direct obligations of the County for which its full faith and credit are pledged and are payable from taxes levied on property located within the County. During fiscal year 2004, the County issued \$10,210,000 in general obligation bonds. The general obligation bonds outstanding as of June 30, 2004 are comprised of the following issues:

Issue	Amount	Interest Rate	Final Maturity
Series 1995	\$ 6,135,000	4.70%-5.00%	August 1, 2010
Series 1996	3,775,000	5.00%-5.38%	August 1, 2010
Series 1997	9,195,000	4.50%-6.50%	December 1, 2017
Series 1999	16,235,000	4.50%-6.50%	August 1, 2019
Series 2000	8,815,000	5.10%-7.00%	February 1, 2020
Series 2001	4,600,000	4.10%-4.80%	October 1, 2021
Series 2002	16,400,000	3.20%-4.70%	February 15, 2022
Series 2002A	8,550,000	3.00%-4.25%	February 15, 2017
Series 2003	10,210,000	3.15%-4.65%	December 15, 2023
Total	<u>\$ 83,915,000</u>		

The Gross Receipts Tax Revenue Bonds are limited obligations of the County, payable solely from gross receipts tax revenues. During the fiscal year 2004, the County issued \$12,000,000 in gross receipts tax revenue bonds. The gross receipts tax revenue bonds outstanding as of June 30, 2004 are comprised of the following issues:

Issue	Amount	Interest Rate	Final Maturity
Series 1996	\$ 350,000	5.10%	April 1, 2005
Series 1996B	59,305,000	4.70%-5.70%	April 1, 2027
Series 1997	14,275,000	4.45%-5.75%	October 1, 2017
Refunding Series 1998	50,350,000	4.05%-5.25%	April 1, 2027
Series 1999	54,040,000	5.00%-5.75%	October 1, 2026
Series 2002	1,905,000	3.00%-3.50%	November 15, 2011
Series 2004	12,000,000	3.00%-5.25%	June 15, 2025
	<u>\$ 192,225,000</u>		

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

The annual requirement to amortize general obligation and gross receipts tax revenue bonds is as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2005	\$ 9,350,000	\$ 9,857,666	\$ 19,207,666
2006	9,440,000	9,662,783	19,102,783
2007	10,565,000	9,430,354	19,995,354
2008	11,130,000	9,201,874	20,331,874
2009	11,550,000	8,923,741	20,473,741
2010-2014	59,190,000	39,727,025	98,917,025
2015-2019	67,125,000	30,010,843	97,135,843
2020-2024	60,610,000	18,025,451	78,635,451
2025-2027	37,180,000	3,800,240	40,980,240
	<u>\$ 276,140,000</u>	<u>\$ 138,639,977</u>	<u>\$ 414,779,977</u>

At June 30, 2004, the following general obligation bonds were authorized and unissued.

Approved by Voters on	Purpose	Authorized
November 5, 2002	Road Construction and Repair	\$ 1,714,000
November 5, 2002	Storm Drain	1,315,000
November 5, 2002	Parks and Recreation	1,255,000
November 5, 2002	Public Safety	1,506,000
Total		<u>\$ 5,790,000</u>

Prior Refunding. In prior years, the County defeased certain general obligation and gross receipts tax revenue bonds by placing cash in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. At June 30, 2004, \$49,275,000 of gross receipts tax revenue bonds and \$9,360,000 of general obligation bonds outstanding are considered defeased.

Component unit long-term debt

The annual requirement to amortize the Multifamily Housing Refunding and Improvement Revenue Bonds outstanding as of June 30, 2004, is as follows:

**COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

	Principal	Interest	Total
2005	\$ 35,000	\$ 108,225	\$ 143,225
2006	35,000	106,177	141,177
2007	40,000	104,130	144,130
2008	40,000	101,790	141,790
2009	45,000	99,450	144,450
2010-2014	260,000	455,715	715,715
2015-2019	345,000	370,012	715,012
2020-2024	450,000	257,399	707,399
2025-2029	600,000	109,394	709,394
Total	\$ 1,850,000	\$ 1,712,292	\$ 3,562,292

G. Short-term debt

Tax and Revenue Anticipation Notes

On July 8, 2003, December 15, 2003, and June 30, 2004 the County issued tax and revenue anticipation notes (TRANs) in the amount of \$25,000,000, \$20,000,000, and \$25,000,000 respectively. The County issues TRANs in advance of property tax collections, depositing the proceeds in its general fund. These notes are used to finance current expenditures pending receipt of tax payments in May and November.

Short-term debt activity for the year ended, was as follows:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Governmental Activities:				
Bonds and notes payable:				
Tax anticipation notes	\$ 30,000,000	\$ 70,000,000	\$ (55,000,000)	\$ 45,000,000

H. Special assessment bonds

The County, acting as the agent for the property owners, issued Special Assessment District Improvement Bonds to finance street and road improvements. The bonds are payable from and secured by a pledge of district special assessments. For redemption purposes, the bonds are numbered consecutively. All or any part of the bonds are subject to redemption in numerical order at the option of the County on any interest payment date prior to maturity, at a price equal to the principal amount thereof plus accrued interest to the redemption. The bonds bear interest from their issue date and are paid semiannually thereafter until paid. The bonds are not a debt of the County, and the County did not pledge its full faith and credit for payment of the bonds. The payment of the bonds is not secured by any encumbrance, mortgage, or other pledge of property of the County except for district special assessments. No property of the County, subject to foregoing exception, shall be liable to be forfeited or taken in payment of the bonds.

**COUNTY OF BERNALILLO, NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2004**

The activities relating to the collection of special assessments and the payments on special assessment bonds are included in the agency fund accounts.

The following is a summary of Special Assessment Bonds payable as of June 30, 2004:

Improvement Bonds	Interest Rate	Date Issued	Date Series Matures	Amount of Original Issue	Bonds Outstanding June 30, 2004
Heatherland Hills BC-85-5	6.75%	1/95	9/1/04	\$135,000	\$5,000
Comanche Griegos BC-83-1	7.25%	12/03	12/15/23	\$1,390,000	\$1,390,000

At June 30, 2004, the Second Street, East Mountain, Paradise Hills, and South Valley special assessment bonds had been fully paid. The remaining potential assets were as follows:

	Second Street BC-85-3	East Mountain BC-85-4	Paradise Hills BC-84-2	South Valley BC-84-1
Cash and investments	\$ -	\$ 14,225	\$ 7,174	\$ 13,095
Accounts receivable:				
Billed, but uncollected	1,804	21,699	21,905	62,361
Total	<u>\$ 1,804</u>	<u>\$ 35,924</u>	<u>\$ 29,079</u>	<u>\$ 75,456</u>

In accordance with State Statute Section 4-55A-28, NMSA, 1978 Compilation, the Board of County Commissioners may transfer to the general fund money obtained from the levy of an assessment for an improvement district if:

1. Bonds or assignable certificates were issued to finance the improvement; and
2. The funds obtained by the bonds or assignable certificates were spent for the improvement; and
3. The assessments were levied and collected for the payment of the bonds or assignable certificates; and
4. Either the bondholders or assignable certificate holders are barred by the statute of limitations or a court judgment or decree from collecting the indebtedness; or
5. The bonded indebtedness or assignable certificates have been paid.

**COUNTY OF BERNALILLO, NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2004**

I. Conduit debt obligations

From time to time, the County has issued Multifamily Housing Revenue Bonds to provide financial assistance to private-sector entities for the acquisition, construction and rehabilitation of commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance.

During 1998, the County issued Taxable Single Family Mortgage Revenue Bonds for the purpose of providing funds for single family housing loans, including down payment assistance, for County residents. The bonds are payable solely from payments received on the underlying mortgage loans.

Neither the County, the State of New Mexico nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2004, there were eleven series of project revenue bonds outstanding, with an aggregate principal amount payable of \$97,401,000 and one series of mortgage revenue bonds outstanding with a principal amount payable of \$5,038,094.

J. Reserve fund balance

The New Mexico Department of Finance and Administration requires that 3/12 of budgeted expenditures be reserved as subsequent-year expenditures to maintain an adequate cash flow until the next significant property tax collection; however, Bernalillo County, with DFA approval, reserves 3/12 of FY05 budgeted expenditures \$31,815,165 plus the reserve for budget stabilization \$4,821,648. The remaining portion of the fund balance is reserved for unencumbered carryover \$6,972,537.

K. Financial data schedule reconciliation

The Seybold Village Handicapped Project Enterprise Fund was presented in two columns on the Financial Data Schedule. The net assets reconcile to the financial statements as follows:

<u>Net Assets</u>	<u>Amount</u>
Net Assets – Low Rent 14.850	\$ 1,508,259
Net Assets– CFP 14.872	25,736
Net Assets– Seybold Village Handicapped Project	<u>\$ 1,533,995</u>

The Section 8 Housing-Voucher Special Revenue Fund was presented in accordance with GASB 34 on the Financial Data Schedule. The equity balance was adjusted to remove the effects of the capital asset additions that are not reflected in the governmental fund presentation.

**COUNTY OF BERNALILLO, NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2004**

Net Assets –Housing Choice Voucher 14.871	\$	97,579
Reduction of capital assets		(77,883)
Accumulated depreciation		61,437
Fund balance – Section 8 Housing-Vouchers	\$	<u>81,133</u>

L. Restatement of prior year fund balance

A prior year erroneous posting of an accounts payable for \$1,692,835 and an account receivable for \$242,674 in the General Fund were corrected in fiscal year 2004. The effect on the General Fund reserved fund balance as of June 30, 2003 of \$41,979,016 as previously reported was an increase of \$1,450,161 to reflect the corrections. An erroneous posting of interest to the Parks and Recreation Fund in the amount of \$13,943 and to the Road Construction Fund in the amount of \$197,249 was corrected in fiscal year 2004. The effect on the Parks and Recreation Fund and Road Construction unreserved fund balances as of June 30, 2003 of \$2,705,355 and \$1,480,349 respectively, as previously reported was a decrease of \$13,943 and \$197,249 to reflect the correction. A prior year accounts payable in the amount of \$171,336 was not recorded in the correct period. The effect on the Solid Waste Fund net assets of \$540,828 as previously reported was a decrease of \$171,336 to reflect the correction. An erroneous posting of accounts payable to the 1998 Refunding Revenue Bond Fund in the amount of \$57,291 was corrected in fiscal year 2004. The effect on the 1998 Refunding Revenue Bond Fund unreserved fund balance of (\$93,359) as previously reported increase to reflect the correction.

V. Other information

A. Risk management

The County is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County joined with other county governments to form a Workers' Compensation Pool in July 1987 and a Multiline Pool in January 1989. These public entity risk pools operate as a common risk management and insurance program for workers' compensation and property and casualty coverage. The County pays an annual premium to the pools for general insurance coverage.

The pools are authorized by joint powers agreements entered into by each county as a separate and independent governmental and legal entity pursuant to the provisions of NMSA 1978 Sections 11-1-1 et seq. The agreements for formation of the Pools provide that the pools be self-sustaining through member premiums and reinsure through commercial companies for claims in excess of \$300,000 and \$250,000, respectively, for each insured event. Both pools are funded entirely by member premiums and are administered by the New Mexico County Insurance Authority.

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

The Workers' Compensation Pool provides workers' compensation coverage for every County employee. There are 28 counties in this pool, which for fiscal years ended 2004 and 2003 contributed a total of \$3,135,464 and \$2,916,780 respectively. The premium that each county pays depends upon the payroll total and the loss experience specific to that county. For fiscal years ended 2004 and 2003, the County contributed \$404,879 and \$368,022 respectively, to the Worker's Compensation Pool. The self-insured retention level for the pool during the period of coverage July 1, 2003 through June 30, 2004 was \$300,000 (that is the maximum amount of coverage for each insured event before obtaining reinsurance). The pool has reinsurance coverage for losses above that amount from County Reinsurance Limited.

The Multiline Pool provides property and casualty coverage for 24 counties. The coverage includes buildings and contents, automobile physical damage, general liability, personal injury (including civil rights), host and liquor liability, automobile liability, public officials errors and omissions, money and securities, commercial blanket bond (employee fidelity), and depositors forgery. The total premiums for this pool were \$6,113,370 and \$5,775,844 for the years ending December 31, 2004, and 2003, respectively. The County paid premiums to the Multiline Pool in calendar years 2004 and 2003 of \$1,641,169 and \$1,773,052, respectively.

The self-insured retention level for this pool during the period of coverage January 1, 2004 through December 31, 2004 is \$150,000 for property and \$250,000 for liability per occurrence (that is the maximum amount of coverage for each insured event before obtaining reinsurance). The pool has reinsurance coverage for losses above that amount from County Reinsurance Limited, to a policy limit of \$2,000,000. Additionally, the pool has purchased another excess liability policy in the amount of \$3,000,000.

The pooling agreements require the pools to be self-sustaining; it is not possible to estimate the range of contingent losses to be borne by the County. The Pool Boards retain a \$3,000,000 equity prior to evaluating any refunds to the participating counties based upon losses expensed and losses incurred. The pools retain the risk of loss to be shared proportionately by pool participants. The County does not retain the sole risk of losses incurred by the County. There were no payments in excess of insurance coverage for the years ended June 30, 2004, 2003, and 2002.

The New Mexico County Insurance Authority has published its own financial reports for the fiscal year ended June 30, 2004, which can be obtained from the New Mexico Association of Counties, 613 Old Santa Fe Trail, Santa Fe, New Mexico, 87501.

The County carries commercial insurance for all other risks of loss, including law enforcement liability, emergency medical, foreign jurisdiction and excess liability, boiler and machinery, and sheriff reserve and rescue personnel. There were no payments in excess of insurance coverage for the years ended June 30, 2004, 2003, and 2002.

**COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

B. Contingencies

Litigation. The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the County. There were 78 open cases during fiscal year 2004. Twenty cases were closed subsequent to June 30, 2004. Fifty-eight cases remain open as of June 30, 2004. Insurance deductibles related to outstanding claims are estimated not to exceed \$100,000. The County is not aware of other threatened lawsuits or claims pending in excess of \$50,000.

Grant Compliance. The County receives significant financial assistance from the U.S. government. Entitlement to the resources is generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantor. As of June 30, 2004, management estimates that no material liabilities will result from such audits.

County Medicaid 1/16 Gross Receipts Tax Equivalent. Under State Statute Section 27-10-4, NMSA 1978 Compilation, a county which does not enact an ordinance imposing a county health care gross receipts tax pursuant to State Statute Section 7-20E-18, NMSA 1978 Compilation is required to dedicate to the county-supported Medicaid fund "an amount equal to a gross receipts tax rate of 1/16 of one percent applied to the taxable gross receipts tax reported during the prior fiscal year by persons engaging in business in the county." The County is currently complying with this statute through an arrangement with University Hospital. University Hospital transfers the equivalent of 1/16 percent gross receipt tax from revenues it receives to comply with the statute. However, if University Hospital fails to make this transfer, the County is liable for the transfer each year. Currently, that amount is approximately \$8.2 million annually.

Other. At June 30, 2004, the County is committed to spend \$5,182,160 under construction contracts for general fixed assets.

C. Joint ventures

Regional Juvenile Detention Center. The Regional Juvenile Detention Center (RJDC) was established by a joint powers agreement between Bernalillo, Sandoval, and Valencia counties on June 26, 1996. The County manages and operates the facility, which is the primary juvenile detention center for Sandoval and Valencia counties and serves as an adjunct to the County's Juvenile Detention Center. Sandoval and Valencia counties contribute one hundred percent of the costs of the operation of RJDC. The County receives a seven percent administrative fee for its management services. The operation is accounted for in a proprietary fund to provide management control and accountability to participants.

COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Torrance County/Bernalillo County Regional Landfill. The County and the Torrance County Solid Waste Authority (TCSWA) entered into a joint powers agreement on April 21, 1998 for the construction and operation of a regional landfill. The County contributed \$633,000 toward the initial costs of acquiring, constructing, designing, developing, and equipping the facility, which constitutes its total equity interest. The County's ownership interest is commensurate with the proportion of funds it provided. It is the intent of the parties to establish tipping fees in an amount sufficient to recover all of the operating costs of the landfill.

Upon termination of the agreement, assets and surplus funds will be distributed pro rata between the parties in accordance with their then existing ownership interests.

TCSWA will operate the facility and is designated as the fiscal agent. The financial report of the Torrance County/Bernalillo County Regional Landfill can be obtained from the Torrance County Solid Waste Authority, 515 Allen Street, Estancia, New Mexico 87016.

D. Retiree Health Care Act

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public services in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers consist of institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirement Act, Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act, or the Magistrate Retirement Act.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf, unless that person retires on or before July 1, 1995, in which event the time period for contributions becomes the time between July 1, 1990, and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990.

Each participating employer makes contributions to the fund in the amount of 1.3% of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution equal to .65% of the employee's annual salary. Each participating

**COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

retiree pays a monthly premium for the basic single plan and an additional five dollars (\$5.00) if the eligible participant retired prior to July 1, 1990, and made no contributions to the plan.

Contributions from participating employers and participating employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee, and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 810 W. San Mateo, Suite D, Santa Fe, New Mexico 87505.

For the fiscal year ended June 30, 2004, the County remitted \$625,260 in employer contributions and \$312,631 in employee contributions to the Retiree Health Care Authority.

E. Public employees' retirement

Plan Description. Substantially all of the Bernalillo County full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy. Plan members are required to contribute 9.15-16.3% of their gross salary and the County is required to contribute 9.15-21.25% depending upon the division of the gross covered salary. The contribution requirements of plan members and the County are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The County's contributions to PERA for the years ending June 30, 2004, 2003, and 2002 were \$5,928,824, \$5,547,120, and \$5,481,717 respectively, equal to the amount of the required contributions for each year. In accordance with Chapter 10, Article 11, Section 5 NMSA 1978, the County has elected to make contributions of seventy-five percent of its employees' member contributions under the General-management, blue collar, white collar, sheriff and fire plans. The following table outlines the divisions the County participates in and the contributions for the year ending June 30, 2004.

**COUNTY OF BERNALILLO, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Covered Division	<u>Employee</u>		<u>Employer</u>	
	Percent	Dollars	Percent	Dollars
General-management, blue collar and white collar	13.15%	\$4,205,942	9.15%	\$2,926,568
General-other	9.15	58,336	9.15	66,209
Sheriff	16.30	1,784,253	18.50	2,025,072
Fire	16.20	694,485	21.25	910,975

F. Investments at the State Treasurer Local Government Investment Pool

The investments are valued at fair value based on quoted market prices as of the valuation date. The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10-1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the local government investment pool is voluntary.



APPENDIX D

FINANCIAL GUARANTY INSURANCE POLICY

(THIS PAGE LEFT BLANK INTENTIONALLY)

Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

(THIS PAGE LEFT BLANK INTENTIONALLY)