

**STATE OF NEW MEXICO
EDDY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

This discussion and analysis of the County of Eddy's (County) financial performance provides an overview of the County's financial activities for the fiscal year ending June 30, 2008. The MD&A should be read in conjunction with the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at the close of FY 2008 by \$95,693,511 (net assets) for an increase of 10% over 2007. Of this amount, \$4,124,217 is restricted for specific purposes. As required by GASB 34, net assets also reflect \$52,067,033 that is invested in capital assets net of related debt.
- In contrast to the government wide statements, the fund statements report a combined fund balance at year end of \$45,287,858.
- Eddy County has no General Obligation Bond indebtedness.
- Oil and Gas production and equipment taxes were up to \$13,376,709 for 2008.
- Gasoline and motor vehicle taxes remained flat at \$1,130,264 for 2008.
- Gross Receipts Taxes were down to \$7,645,911 for 2008
- Overall expenditures increased 10%.
- Overall fund balance showed a 16% increase for 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section); the basic financial statements; and other required supplementary information. The basic financial statements include two kinds of statements that present different views of the County.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the County's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the County government, reporting the County's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains for spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, a section with combining statements provides more details about the County's non-major governmental funds which are added together and presented in a single column in the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the County as a whole using accounting methods similar to those used in private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current fiscal year's revenues and expenses are accounted

for in the statement of activities regardless of when cash was received or paid.

The two government-wide statements report the County's net assets and how they have changed. Net assets, the difference between the County's assets and liabilities, is one way to measure the County's financial health, or position.

- Over-time, increase or decreases in the County's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the health of the County you need to consider additional non-financial factors such as changes in the County's tax base and the condition of the County's roads.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Of the County's total assets of \$100,615,867, the largest components are: (1) cash and cash equivalents of \$42,969,018 or 42%, and (2) capital assets net of accumulated depreciation of \$52,174,406 or 51%.

The County's net assets for fiscal year ended June 30, 2007 and 2008 are summarized as follows:

Governmental Activities		
	2007	2008
Current and other assets	\$ 40,740,071	\$ 48,441,461
Capital assets (net of depreciation)	50,859,574	52,174,406
Total assets	\$ 91,599,645	\$ 100,615,867
Current liabilities	\$ 1,489,515	\$ 2,590,523
Long-term liabilities	2,889,209	2,331,833
Total liabilities	\$ 4,378,724	\$ 4,922,356
Net assets:		
Invested in capital assets, net of related debt	\$ 50,572,509	\$ 52,067,033
Restricted	7,037,791	4,124,217
Unrestricted	29,610,621	39,502,261
Total net assets	\$ 87,220,921	\$ 95,693,511

MAJOR REVENUE FUNDS

(Reflected in thousands of dollars)

Fund	2006	2007	2008
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General Fund	\$	26,230	\$	26,559	\$	29,654
Environmental Services		1,463		1,428		1,606
County Indigent Fund		2,792		2,644		2,899
Protest Suspense Fund		-		1,041		48
Civil Emergency		-		1,565		1,125
Legislative Appropriations		-		1,033		1,556
Fire Excise Tax - Gross Receipts Fund		2,495		2,429		1,229
Capital Improvements Fund		935		974		765

EXPLANATION OF MAJOR REVENUE FUND DIFFERENCES

General Fund - the increase in the general fund revenue from 2007 to 2008 is attributed to an increase in oil and gas taxes.

Environmental Services - The gross receipts revenue has remained relatively flat over the past year showing a slight decrease from 2007 to 2008. This is due mainly to continued activity in the oil and gas industry.

Indigent Fund - This fund is supported mainly through county wide gross receipts taxes which have remained relatively flat due to continued oil and gas activity.

Fire Excise - The gross receipts revenue has remained relatively flat over the past year showing a slight decrease from 2007 to 2008. This is due mainly to continued activity in the oil and gas industry.

Capital Improvements - The capital improvement revenues have remained relatively flat. The main revenue source for this fund is gross receipts tax.

Protest Suspense Fund - This fund was created in the current year to account for taxes that are being protested. Total tax payments are placed in this fund until the matter has been resolved. When matters have been resolved, funds will revert to either the tax payer or the tax fund.

Civil Emergency Fund - This fund did not receive as much state appropriations as last year.

Legislative Appropriations - This fund received additional amounts from the state in 2008.

**MAJOR REVENUE SOURCES (Cash Basis)
(Reflected in thousands of dollars)**

	<u>2006</u>		<u>2007</u>		<u>2008</u>
Property Taxes	\$ 6,365	\$	7,833	\$	7,302
Oil and Gas Production	10,790		9,701		10,992
Oil and Gas Equipment	1,715		2,105		2,385
Interest on Investments	939		1,479		1,452
PILT	1,919		1,907		1,882
Indigent GRT	2,692		2,625		3,135
Environmental GRT	1,392		1,253		1,529
Fire Excise GRT	2,495		2,507		2,982

EXPLANATION OF MAJOR REVENUE SOURCES

Property Taxes (residential & non residential) - The decrease in property taxes is attributed to a decrease in the Protest Suspense Fund amount collected.

Oil and Gas Production - The increase in Oil and Gas production is attributed to higher crude oil and natural gas prices.

Oil and Gas Equipment - This funding source showed an increase over last year, and is attributed to taxes levied on equipment located in Eddy County at the end of the calendar year.

Interest on Investments - The revenue from investments is relatively flat. All investments are in bank certificates of deposit or the State of New Mexico Investment Pool.

PILT - Payment in Lieu of Taxes is a distribution made by the federal government for Bureau of Land Management properties located in Eddy County.

Indigent, Environmental Services and Fire Excise Gross Receipts Taxes - These taxes have increased due to a related increase in activity in the oil and gas industry.

CASH BALANCES ON JUNE 30,

2006	2007	2008
29,309	34,421	42,969

MAJOR EXPENDITURE FUNDS (Reflected in thousands of dollars)

Fund	2006	2007	2008
General Fund	\$ 19,482	\$ 20,715	\$ 22,724
Environmental Services	700	740	1,318
County Indigent Fund	2,158	2,806	2,973
Legislative Appropriations	-	885	1,288
Construction Fund	-	229	1,340
Fire Excise Tax - Gross Receipts Fund	2,387	2,027	1,583

GENERAL FUND BUDGET VARIANCES

The General Fund budgetary report shows the following significant variances between the final budget and the actual amounts:

There was a positive variance of approximately \$3.7 million in tax revenues due primarily to increased oil and gas activity, and an increase in the property tax.

CAPITAL ASSETS ACTIVITY

A summary of capital assets and changes occurring during the year ended June 30, 2008 follows:

	Balance <u>June 30, 2007</u>	<u>Additions</u>	Retirements	Balance <u>June 30, 2008</u>
Capital assets not being depreciated				
Land	\$ 3,813,997	\$ 10,408	\$ -	\$ 3,824,405
Construction in progress	243,806	2,588,866	-	2,832,672
Total capital assets not being depreciated	4,057,803	2,599,274	-	6,657,077
Capital assets being depreciated				
Landfill	686,696	-	-	686,696
Building and building improvements	24,213,114	-	-	24,213,114
Infrastructure	27,046,929	1,004,962	(62,266)	27,989,625
Equipment and furnishings	23,925,644	1,718,066	(376,815)	25,266,895
Total capital assets being depreciated	75,872,383	2,723,028	(439,081)	78,156,330
Less accumulated depreciation for:				
Buildings and building improvements	7,450,419	691,775	-	8,142,194
Infrastructure	9,643,819	1,087,066	(23,406)	10,707,479
Equipment and furnishings	11,976,374	2,148,811	(335,857)	13,789,328
Total accumulated depreciation	29,070,612	3,927,652	(359,263)	32,639,001
Total capital assets being depreciated, net	46,801,771	(1,204,624)	(79,818)	45,517,329
Government activities capital assets, net	\$ 50,859,574	\$ 1,394,650	\$ (79,818)	\$ 52,174,406

The major activities in capital assets for the year were construction of new fire stations, purchase of fire trucks, and improvements to the roads infrastructure system.

EDDY COUNTY DEMOGRAPHICS

Census Population

1900 - 963 / 1990 - 48,646 / 2000 - 51,658 / 2005 - 51,437 (estimated)

County Classification

Class "B" (pop. < 100,000) "Over" (> \$300,000,000 in valuation)

2002 Valuation \$1,703,172,149 2003 Valuation \$1,737,463,068

Increase of 2%

Land Area

4,182 sq. miles

Property Ownership

60% Federal/20% State/2% Local/18% private

County Road Miles Maintained

1,240

2007 - 2008 Expenditures

\$36,217,405

Municipalities

Carlsbad, Artesia, Loving, Hope

HISTORY AND OPERATION OF EDDY COUNTY NEW MEXICO

Eddy County was established in 1889 when Lincoln County split into Lincoln, Chaves and Eddy Counties. At that time its boundaries went from the Texas State Line to the South, to the Texas State Line to the East. Eddy County is now one of 33 counties in the state of New Mexico and encompasses approximately 4,200 square miles of surface area.

There are four incorporated municipalities within Eddy County: Carlsbad, Artesia, Hope and Loving. There are also numerous rural communities such as Otis, Malaga, Happy Valley, Cottonwood, Atoka and Riverside. There are over 30 rural water cooperatives in Eddy County, none of which are controlled by the County.

The County is headed up by five elected county commissioners, who appoint a county manager to run the day to day affairs of the County. There are also five other elected positions, the Clerk, Treasurer, Assessor, Sheriff and Probate Judge, who are responsible for the statutory duties of their respective offices and act as department heads for those departments.

Eddy County is statutorily responsible for housing various state agencies which include the District Court, District Attorney, Juvenile Probation and Parole Office and two County Health Offices.

Eddy County maintains approximately 275 full time positioned employees, and an additional 24 part-time or temporary employees in 24 departments.

County governments historically receive most of their operating funds through Ad Valorem or "property taxes. Of the 4,200 square miles in Eddy County, only 18% is privately owned and subject to property tax. 22% is controlled by the State and Local Government and about 60% is controlled by federal agencies

such as the Bureau of Land Management, Bureau of Reclamation, National Park Service, Department of Energy and the U. S. Forest Service.

The County Road Department maintains approximately 1300 miles of county roads, along with signage and vector control throughout the County.

Eddy County is classified as a Class "B Over" county, which means it has a population of under 100,000 with property values over \$300,000,000. The county's net taxable value for 2002 was \$1.7 billion, which generates about \$4.6 million in revenue for the county. We continue to maintain the lowest mil rate in the state.

Other major sources of revenue include Oil & Gas production taxes, which generated about \$12 million this year, Gross Receipts taxes, which generate about \$8 million, and Payment In Lieu of Taxes (PILT) from the federal government which generated just over \$1.8 million. We also receive gasoline taxes, motor vehicle taxes, state fire funds along with various grants and reimbursements.

Eddy County ran a 2006/2007 general fund budget of approximately \$36.2 million. With special funds such as the Eagle Draw Flood District, 12 Volunteer Fire Departments, DWI and Drug programs and Artesia Motor Vehicle Department, the total operating budget is around \$43.8 million. There are over 90 funds administered by Eddy County.

EDDY COUNTY DEPARTMENTS & SERVICES

COUNTY COMMISSION AND ADMINISTRATION

The County Commission sets the policy by which the county operates through resolutions and ordinances. The Commission serves as the County Finance Board as well as the Indigent Hospital Claims Board. Commissioners are elected by district for four year terms and are limited to two consecutive terms. They appoint a County Manager who oversees the day to day activities of the county, which includes the county budget, human resources, building maintenance, accounts payable and grant programs.

COUNTY ASSESSOR

The Assessor's office is run by the elected County Assessor, whose duties include the proper assessment of all property subject to valuation for taxation purposes within the county.

COUNTY CLERK

The Clerk's office is run by the elected County Clerk, whose duties include acting as ex officio clerk to the County Commission, recording and filing of official documents in the county, keeping historic records of the county, issuing marriage licenses, and is responsible for the partisan election process within Eddy County.

COUNTY SHERIFF

The elected County Sheriff is the principle preserver of the peace in the county. The sheriff and his deputies are empowered to suppress assaults, batteries, apprehend and commit to jail all offenders violating statutes, ordinances and other laws. The sheriff is also responsible for serving and executing all processes, writs and other orders directed to him by the courts. The sheriff also provides for courthouse security.

COUNTY TREASURER

The elected County Treasurer is responsible for the supervision of all county moneys received and disbursed, regular accounts of all warrants drawn and paid, and serves ex officio as the county tax collector. All fiscal activities with the county must be coordinated through the County Treasurer.

PROBATE JUDGE

The Probate Judge is elected countywide, and is required to hold court in the county seat. This is a part time position of the county, and is elected for four year terms.

ROAD DEPARTMENT

The County Road Department maintains approximately 1300 miles of county roads, along with keeping proper signs on these roads throughout the county. They also operate a vector control department to assist in the control of mosquitoes and other insects in the county.

DETENTION

Both the Adult and Juvenile Detention Centers are operated by the county, under the control of the County Commission. These facilities serve inmates who are awaiting trial, as well as those who have been sentenced for less than 365 days.

EMERGENCY PREPAREDNESS

The Emergency Preparedness office oversees the County Emergency Operations Plan for the entire county. He also provides supervision as the County Fire Marshall for the 12 volunteer departments located throughout the county.

SPECIAL SERVICES

The county also has several special services including our information systems department, Geographic Information System for updated county maps, rural addressing, planning and zoning, DWI programs as well as other special projects and services.

EDDY COUNTY MISSION STATEMENT

EXCELLENCE IN LEADERSHIP

QUALITY SERVICE

VISION

Eddy County continues to move forward as a leader in county government in New Mexico. As a class "B Over" county, we maintain one of the lowest property tax rates in the state, while maintaining a healthy, fiscally responsible operation.

The County Commission acquired the Eddy County Administration Complex at 101 W. Greene in 1998, showing their dedication to the stability of downtown Carlsbad, while securing land for the future needs of the county.

To avoid closure by the State of New Mexico, Eddy County took over the operation of the Artesia Motor Vehicle Office in 1999 in order to continue this vital service to the citizens of North Eddy County. Eddy County is the only county in New Mexico to operate an MVD field office.

Eddy County strives to work with the local municipalities to bring better services without duplication,

where practical. We currently partner with the Cities of Carlsbad and Artesia on our fire and ambulance services as well as operating only one landfill in the county.

The County Commission and Elected Officials of Eddy County thank you for your trust and support as they serve you during their terms.

PHILOSOPHY

The Eddy County Commission has maintained a philosophy of progressive conservatism. While maintaining a property tax rate of 7.5 out of a possible 11.850, the commission strives to provide the best possible service at the lowest possible tax rate. As a service organization, a major percentage of the budget is dedicated to personnel expenses. Eddy County is constantly burdened with unfunded state and federal mandates, and strives to continue a high level of service with minimal growth in government.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, and investors, with a general overview of the County's finances, and to show the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Office of the County Manager, Eddy County Administration Complex, 101 W. Greene, Carlsbad, NM 88220, (575) 887-9511.