

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

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, 2009. The MD&A should be read in conjunction with the accompanying transmittal letter, 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 2009 by \$101,008,949 (net assets) for an increase of 10% over 2008. Of this amount, \$4,049,592 is restricted for specific purposes. As required by GASB 34, net assets also reflect \$51,508,933 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 \$51,020,277.
- Eddy County has no General Obligation Bond indebtedness.
- Oil and Gas production and equipment taxes were up to \$13,742,742 for 2009
- Gasoline and motor vehicle taxes remained flat at \$1,156,189 for 2009
- Gross Receipts Taxes were up to \$9,276,509 for 2009.
- Overall expenditures increased 6%.
- Overall fund balance showed a 12.75% increase for 2009.

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

Fire Excise - The gross receipts revenue has remained relatively flat over the past year showing a slight decrease from 2008 to 2009. This is due mainly to continued activity in the oil and gas industry.

Capital Improvements - The decrease in the capital improvement revenues are due to moving that portion of General Fund Gross Receipts Tax once placed into the Capital Improvements Fund back into the General Fund.

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.

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Property Taxes	\$ 7,833	\$ 7,302	\$ 7,950
Oil and Gas Production	9,701	10,992	12,248
Oil and Gas Equipment	2,105	2,385	2,182
Interest on Investments	1,479	1,452	490
PILT	1,907	1,882	4,240
Indigent GRT	2,625	3,135	3,262
Environmental GRT	1,253	1,529	1,350
Fire Excise GRT	2,507	2,982	2,702

EXPLANATION OF MAJOR REVENUE SOURCES

Property Taxes (residential & non residential) - the increase in property taxes is attributed to an increase in the overall property valuation. The county property tax rate has remained at 7.5 for over 16 years. Any deviation from that collection rate is determined by a state yield control formula which may reduce the collection rate on residential property.

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 decrease in revenue from 2008 to 2009 reflects the drop in stock market values in October of 2008 and the subsequent impact on the State of New Mexico Investment Pool.

PILT - Payment in Lieu of Taxes ("PILT") is revenue provided by the Federal government for federally owned land in the County for which no property tax is levied/collected. In years prior to 2009, Congress has not fully funded the PILT payments to local governments. The increase from 2008 to 2009 is the result of the Congress passing a new law which fully funds the PILT payments to local governments.

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

CASH BALANCES ON JUNE 30,

	2007	2008	2009
	34,421	42,969	49,455

**MAJOR EXPENDITURE FUNDS
(Reflected in thousands of dollars)**

<u>Fund</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Fund	\$ 20,715	\$ 22,724	\$ 24,818
Environmental Services	740	1,318	1,321
County Indigent Fund	2,806	2,973	3,424
Capital Improvements Fund	763	1,583	349
Fire Excise Tax - Gross Receipts Fund	2,027	1,583	2,247

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 \$2.8 million in tax revenues due primarily to increased oil and gas activity, and an increase in the gross receipts tax.

CAPITAL ASSETS ACTIVITY

A summary of capital assets and changes occurring during the year ended June 30, 2009 follows:

	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>
Capital assets not being depreciated				
Land	\$ 3,824,405	\$ 50,634	\$ -	\$ 3,875,039
Construction in progress	<u>2,832,673</u>	<u>1,059,530</u>	<u>(2,606,567)</u>	<u>1,285,636</u>
Total capital assets not being depreciated	<u>6,657,078</u>	<u>1,110,164</u>	<u>(2,606,567)</u>	<u>5,160,675</u>
Capital assets being depreciated				
Landfill	686,696	-	-	686,696
Building and building improvements	24,213,114	-	-	24,213,114
Infrastructure	27,989,625	1,342,052	(45,614)	29,286,063
Equipment and furnishings	<u>25,266,895</u>	<u>3,781,501</u>	<u>(958,347)</u>	<u>28,090,049</u>
Total capital assets being depreciated	<u>78,156,330</u>	<u>5,123,553</u>	<u>(1,003,961)</u>	<u>82,275,922</u>

Less accumulated depreciation for:				
Buildings and building improvements	8,142,194	691,560	-	8,833,754
Infrastructure	10,707,479	1,156,095	(17,568)	11,846,006
Equipment and furnishings	<u>13,789,328</u>	<u>1,884,764</u>	<u>(516,880)</u>	<u>15,157,212</u>
Total accumulated depreciation	<u>32,639,001</u>	<u>3,732,419</u>	<u>(534,448)</u>	<u>35,836,972</u>
Total capital assets being depreciated, net	<u>45,517,329</u>	<u>1,391,134</u>	<u>(469,513)</u>	<u>46,438,950</u>
Government activities capital assets, net	<u>\$ 52,174,407</u>	<u>\$ 2,501,298</u>	<u>\$ (3,076,080)</u>	<u>\$ 51,599,625</u>

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)
 2007 Valuation - \$2,555,746,565 2008 Valuation - \$2,752,928,930
 Increase of 7%

Land Area

4,182 sq. miles

Property Ownership

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

County Road Miles Maintained

1,240

2008 - 2009 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 27 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. Forrest Service.

The County Road Department maintains approximately 1,300 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 2008 was \$2.7 billion, which generates about \$8 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 \$34 million this year, Gross Receipts taxes, which generate about \$10.5 million, and Payment In Lieu of Taxes (PILT) from the federal government which generated just over \$4.2 million. We also receive gasoline taxes, motor vehicle taxes, state fire funds along with various grants and reimbursements.

Eddy County ran a 2008/2009 general fund budget of approximately \$39.7 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 100 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 operations of the following: finance department, human resources department, facilities management department, information systems department, indigent program, DWI program, detention department, emergency management department and road department.

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

Eddy County will provide leadership, service, policies and direction for the enhancement of safety, health, economic and infrastructure development based on the principles of ethical management, fiscal responsibility, open-mindedness, vision and integrity while preserving the trust placed in us by the citizens of Eddy County

VISION 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.