



The Rogoff Firm

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS & FINANCIAL ADVISORS

Metro Narcotics Agency

Financial Statements
and
Independent Auditors' Report

June 30, 2008

Metro Narcotics Agency

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Metro Narcotics Agency
June 30, 2008

BOARD OF DIRECTORS

The Board of Directors, none of whom are employed by the Metro Narcotics Agency for the year ended June 30, 2008, are:

Harry Romero	Chairman
Todd Garrison	Vice Chairman
Brian Haines	Board Member
Terrence Moore	Board Member
Robert Gomez	Board Member
Dolores Archuleta	Board Member
Susana Martinez	Board Member
Dolores Saldana-Caviness	Board Member

Independent Auditors' Report

Mr. Hector Balderas, State Auditor of New Mexico and
the Board of Directors of the Metro Narcotics Agency

We have audited the accompanying financial statements of the governmental activities and each major fund of the Metro Narcotics Agency (Metro) as of and for the year ended June 30, 2008, which collectively comprise Metro's basic financial statements, as listed in the table of contents. We have also audited the budget comparison statements in the statements of revenues, expenditures and changes in fund balance—budget and actual, as listed in the table of contents. These financial statements are the responsibility of Metro'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 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 financial position of the governmental activities and each major fund of Metro as of June 30, 2008, and the respective changes in financial position and budgetary comparisons for the general fund and each major special revenue fund for the year then 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 26, 2008, on our consideration of Metro's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise Metro's basic financial statements. The accompanying schedules of pledged collateral and deposit accounts and investments are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REDW LLC

November 26, 2008

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2008

The management discussion and analysis for the Metro Narcotics Agency ("Metro" or "Metro Narcotics") presents an overview of the financial performance during the year ended June 30, 2008. It is intended to be read in conjunction with the financial statements, which follow this section.

Metro Narcotics operates under a joint powers agreement between city, county, state, and university law enforcement agencies to provide intervention and prosecution of drug and drug related activities. It is the mission of the organization to improve the quality of life for the citizens of the city of Las Cruces, New Mexico and Dona Ana County by working to rid the community of illegal drugs and to bring to prosecution those responsible for the distribution and trafficking of illegal drugs and contraband.

The board of directors and its management value fiscal and programmatic accountability. Metro is the steward for contributions from participating governments and grant dollars, and operates as a governmental fund.

Financial Highlights

- ◆ During the year, net assets of Metro Narcotics' governmental activities decreased by \$146,278.
- ◆ Revenues of Metro's governmental activities were \$1,181,531 in 2008 and \$1,180,195 in 2007.
- ◆ Expenditures of Metro's governmental activities were \$1,327,809 in 2008 and \$1,287,897 in 2007.

Overview of Financial Statements

This annual report consists of four parts:

1. Management's discussion and analysis.
2. The basic financial statements.
3. Notes to the basic financial statements.
4. Supplementary information

The basic financial statements combine the fund and organization-wide financial statements.

Organization-Wide Statements

The statement of net assets and the statement of activities are organization-wide, providing both long-term and short-term information about Metro's overall financial status. The organization-wide financial statements are designed to provide readers with a broad overview of Metro's finances, in a manner similar to a private-sector business.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2008

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

The statement of activities presents information showing how Metro's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., accrued leave).

Fund Financial Statements

The governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance are fund financial statements that provide detailed information about the most significant funds—not Metro Narcotics as a whole. Most of Metro's basic services are reported in the general fund.

The governmental fund focuses on how cash and other financial assets flow in and out, and the balances left at year-end that are available for spending. Consequently, the governmental fund provides a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Metro's programs.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail. The statements are followed by a section of supplementary information that compares the actual and budgetary revenues and expenditures.

Fiscal Agent

The City of Las Cruces is the fiscal agent for Metro Narcotics. As fiscal agent, the City establishes funds to control and manage money for a particular purpose, or in order to demonstrate that it is meeting legal responsibilities for using certain grants and other money.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Financial Analysis of Metro Narcotics as a Whole

Net Assets. The governmental net assets decreased to \$1,356,059 in FY 08 from \$1,502,337 in FY 07.

Table 1 summarizes the net assets for its governmental activities.

Table 1
Metro Narcotics' Net Assets
As of June 30,

	<u>2008</u>	<u>2007</u>
Current assets	\$ 1,130,369	\$ 1,194,581
Capital assets, net	<u>260,811</u>	<u>365,756</u>
Total assets	<u>\$ 1,391,180</u>	<u>\$ 1,560,337</u>
Current and other liabilities	<u>\$ 35,121</u>	<u>\$ 58,000</u>
Total liabilities	<u>35,121</u>	<u>58,000</u>
Net Assets		
Invested in capital assets, net of related debt	260,811	365,756
Restricted for seized assets	854,164	846,360
Unrestricted	<u>241,084</u>	<u>290,221</u>
Total net assets	<u>1,356,059</u>	<u>1,502,337</u>
Total liabilities and net assets	<u>\$ 1,391,180</u>	<u>\$ 1,560,337</u>

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Changes in Net Assets. Total revenues for the year ended June 30, 2008, were \$1,818,531 compared with expenses of \$1,327,809. Total revenues for the year ended June 30, 2007, were \$1,180,195 compared with expenses of \$1,287,897.

Table 2 summarizes the changes in net assets for the year.

Table 2
Changes in Net Assets
For the Year Ended June 30,

	2008	2007
Revenues		
Program revenues		
Operating grants	\$ 790,433	\$ 746,829
Charges for services	341,500	331,967
General revenue		
Other revenues	18,870	52,192
Investment income	30,728	49,207
Total revenue	1,181,531	1,180,195
Expenses-law enforcement	1,327,809	1,287,897
Change in net assets	(146,278)	(107,702)
Net assets, beginning of year	1,502,337	1,610,039
Net assets, end of year	\$ 1,356,059	\$ 1,502,337

Grant Activities. Grants awarded for fiscal year 2008 included a grant for \$739,329 that pays for facility rental and other operating costs. A balance of \$14,027 from this grant will be expended in fiscal year 2009.

Budgetary Information. The board of directors approves budgets and, when necessary, revisions to existing budgets. Metro makes every effort to ensure operational and grant expenditures do not exceed funds available. Tables 3 and 4 summarize the variance between the budgeted and actual expenditures at June 30, 2008 and 2007, respectively.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Table 3
Budgetary Comparison – Aggregate of All Funds
Year Ended June 30, 2008

	Budget		Actual	Variance	Percent Variance
	Original	Final			
Revenues					
Operating grants	\$ 794,688	\$ 799,076	\$ 790,433	\$ (8,643)	-1%
Charges for services	341,500	341,500	341,500	-	0%
Investment income	-	35,000	30,728	(4,272)	-12%
Other	-	-	18,870	18,870	0%
Total revenue	<u>1,136,188</u>	<u>1,175,576</u>	<u>1,181,531</u>	<u>5,955</u>	1%
Expenditures					
Law enforcement	1,136,188	1,314,972	1,222,864	92,108	7%
Capital outlay	-	8,187	-	8,187	100%
Total expenditures	<u>1,136,188</u>	<u>1,323,159</u>	<u>1,222,864</u>	<u>100,295</u>	8%
Revenues under expenditures	<u>\$ -</u>	<u>\$ (147,583)</u>	<u>\$ (41,333)</u>	<u>\$ 106,250</u>	72%

In fiscal year 2008 the differences between the original budget and the final budget result from increases in law enforcement activities. The differences between the final budget and the actual results are related to the sale of capital assets in the amount of \$12,150 that was not included in the budget, and decreased activities in law enforcement of \$65,019.

Table 4
Budgetary Comparison – Aggregate of all Funds
Year Ended June 30, 2007

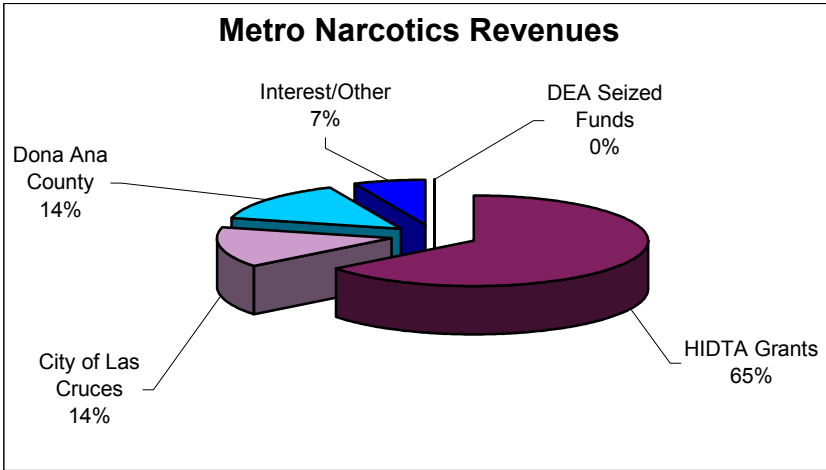
	Budget		Actual	Variance	Percent Variance
	Original	Final			
Revenues					
Operating grants	\$ 985,814	\$ 769,772	\$ 746,829	\$ (22,943)	-3%
Charges for services	300,000	335,227	331,967	(3,260)	-1%
Investment income	-	-	49,207	49,207	0%
Other	78,606	-	52,192	52,192	0%
Total revenue	<u>1,364,420</u>	<u>1,104,999</u>	<u>1,180,195</u>	<u>75,196</u>	7%
Expenditures					
Law enforcement	1,356,947	1,110,999	1,060,843	50,156	5%
Capital outlay	175,304	264,000	270,436	(6,436)	-2%
Total expenditures	<u>1,532,251</u>	<u>1,374,999</u>	<u>1,331,279</u>	<u>43,720</u>	3%
Revenues under expenditures	<u>\$ (167,831)</u>	<u>\$ (270,000)</u>	<u>\$ (151,084)</u>	<u>\$ 118,916</u>	44%

**Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

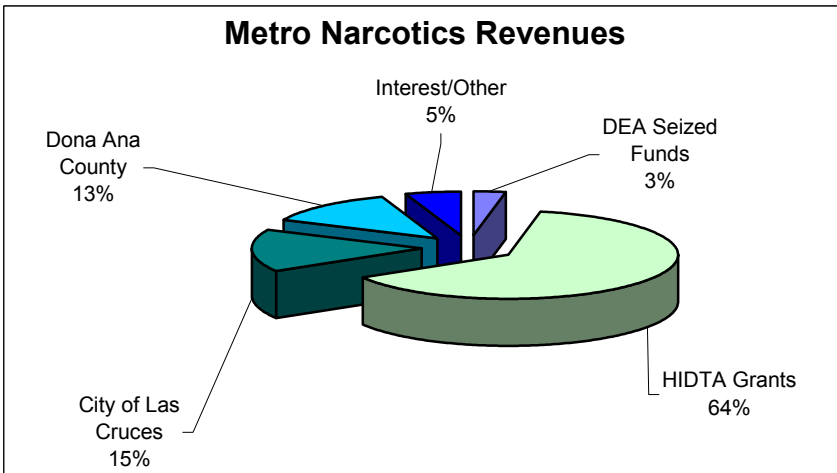
In fiscal year 2007, differences between the original budget and the final budget result from decreases in anticipated grant awards. Differences between the final budget and the actual relate to the receipt of seized funds in the amount of \$28,993, investment income in the seized assets fund in the amount of \$49,207 and sale of seized assets in the amount of \$15,250.

Charts 1 and 2 show the revenues by source for fiscal years 2008 and 2007, respectively.

Chart 1 - 2008 Revenues by Source



**Chart 2
2007 Revenues by Source**



Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Capital Assets

Capital Assets—As of June 30, 2008, the organization's capital assets totaled \$260,811 net of accumulated depreciation of \$720,602. As of June 30, 2007, the organization's capital assets totaled \$365,756 net of accumulated depreciation of \$615,657.

Table 5 provides details of the net capital assets.

Table 5
Capital Assets and
Accumulated Depreciation
For the Year Ended June 30,

	2008	2007
Seized equipment	\$ 431,304	\$ 431,304
HIDTA equipment	<u>550,109</u>	<u>550,109</u>
Total equipment	981,413	981,413
Accumulated depreciation	<u>(720,602)</u>	<u>(615,657)</u>
	<u>\$ 260,811</u>	<u>\$ 365,756</u>

Metro capitalizes assets with an acquisition cost of \$500 or more and a useful life of greater than one year. During fiscal year 2008, Metro did not purchase any equipment while equipment purchases totaled \$270,436 in fiscal year 2007.

Economic Outlook

Changes in the general economic conditions for the City of Las Cruces and the surrounding area influence the Agency. The regional area, while still experiencing an expanding economy, has not been immune from national economic conditions. Following is a table that contains a number of economic variables that underscore the mixed performance of the region during the last two fiscal years. The trends show growth in employment and population. The construction industry has shown a sharp drop in fiscal year 2008.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Table 6
Las Cruces Economic Indicators

Item	Fiscal Year		Change	
	2008	2007	Number	Percent
Total Employment (MSA)*	68,625	67,483	1,142	1.7%
Single Family Building Permits	675	1,294	(619)	-47.8%
Total Permit Valuation (Millions)	\$ 184.8	\$ 316.0	\$ (131.2)	-41.5%
Population Estimate**	89,722	86,160	3,562	4.1%

* Preliminary - Data for Metropolitan Statistical Area

** Census Bureau Estimates as of July 1

For fiscal year 2009 the economic assumptions call for marked slowdown in growth. The recent past has seen exceptional growth fueled by rapid construction activity centered around residential housing. This changed in fiscal year 2008 in response to national conditions. The outlook calls for overall construction activity to decelerate further to a level that is more in balance between population growth and construction activity. While residential construction will remain sluggish, commercial activity will show gains.

In summary, the regional area is well positioned to benefit when the economy returns to expansionary mode over the next 18 months.

Contacting the Financial Management

The financial report is designed to provide the community and others with a general overview of Metro Narcotics' finances and demonstrate the organization's accountability for the money it receives. Questions about this report or requests for additional information may be addressed to the Chairman of the Metro Narcotics Board at:

Metro Narcotics Board of Supervisors
217 E. Picacho
Las Cruces, NM
(505) 528-4200

Financial Statements

Metro Narcotics Agency
Statement of Net Assets and Governmental Funds Balance Sheet
June 30, 2008

	<u>General Fund</u>	<u>Seized Assets Fund</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 159,285	\$ -
Restricted cash and cash equivalents	-	854,164
Due from grant fund	106,210	-
Due from other governments	-	-
Total current assets	<u>265,495</u>	<u>854,164</u>
Capital assets - equipment, net	-	-
Total assets	<u><u>\$ 265,495</u></u>	<u><u>\$ 854,164</u></u>
Liabilities		
Current liabilities		
Due to Metro general fund	\$ -	\$ -
Accounts payable	19,762	-
Accrued payroll liabilities	4,649	-
Total current liabilities	<u>24,411</u>	<u>-</u>
Fund Balance/Net Assets		
Reserved for seized assets	-	854,164
Unreserved	<u>241,084</u>	<u>-</u>
Total fund balance	<u>241,084</u>	<u>854,164</u>
Total liabilities and fund balance	<u><u>\$ 265,495</u></u>	<u><u>\$ 854,164</u></u>
Net assets		
Invested in capital assets		
Restricted for seized assets		
Unrestricted		
Total net assets		
Total liabilities and net assets		

Grant Fund	Total	Adjustments (Note 10)	Statement of Net Assets
\$ -	\$ 159,285	\$ -	\$ 159,285
-	854,164	-	854,164
-	106,210	(106,210)	-
<u>116,920</u>	<u>116,920</u>	<u>-</u>	<u>116,920</u>
116,920	1,236,579	(106,210)	1,130,369
-	-	260,811	260,811
<u>\$ 116,920</u>	<u>\$ 1,236,579</u>	<u>\$ 154,601</u>	<u>\$ 1,391,180</u>
\$ 106,210	\$ 106,210	\$ (106,210)	\$ -
8,162	27,924	-	27,924
2,548	7,197	-	7,197
<u>116,920</u>	<u>141,331</u>	<u>(106,210)</u>	<u>35,121</u>
-	854,164	(854,164)	-
-	241,084	(241,084)	-
-	1,095,248	(1,095,248)	-
<u>\$ 116,920</u>	<u>\$ 1,236,579</u>		
		260,811	260,811
		854,164	854,164
		241,084	241,084
		<u>260,811</u>	<u>1,356,059</u>
		<u>\$ 154,601</u>	<u>\$ 1,391,180</u>

The accompanying notes are an integral part of these financial statements.

Metro Narcotics Agency
Statement of Activities and Governmental Funds Revenues,
Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2008

	General Fund	Seized Assets Fund
	<u> </u>	<u> </u>
Revenues		
Operating grants	\$ 28,229	\$ -
Charges for services	341,500	-
Investment earnings (loss)	(2,660)	33,388
Other revenues	<u>6,720</u>	<u>12,150</u>
Total revenues	<u>373,789</u>	<u>45,538</u>
Expenditures/Expenses		
Current - law enforcement activities		
Personnel	164,406	-
Repairs and maintenance	65,280	-
Building rental	-	-
Services	91,655	15,005
Supplies	11,021	22,729
Insurance	83,741	-
Other	6,823	-
Depreciation	<u>-</u>	<u>-</u>
Total expenditures/expenses	<u>422,926</u>	<u>37,734</u>
Revenues over (under) expenditures/expenses	(49,137)	7,804
Fund balances/net assets, beginning of the year	<u>290,221</u>	<u>846,360</u>
Fund balances/net assets, end of the year	<u><u>\$ 241,084</u></u>	<u><u>\$ 854,164</u></u>

Grant Fund	Total	Adjustments (Note 10)	Statement of Activities
\$ 762,204	\$ 790,433	\$ -	\$ 790,433
-	341,500	-	341,500
-	30,728	-	30,728
-	18,870	-	18,870
<u>762,204</u>	<u>1,181,531</u>	<u>-</u>	<u>1,181,531</u>
135,020	299,426	-	299,426
726	66,006	-	66,006
524,274	524,274	-	524,274
62,614	169,274	-	169,274
26,103	59,853	-	59,853
-	83,741	-	83,741
13,467	20,290	-	20,290
-	-	104,945	104,945
<u>762,204</u>	<u>1,222,864</u>	<u>104,945</u>	<u>1,327,809</u>
-	(41,333)	(104,945)	(146,278)
-	1,136,581	365,756	1,502,337
<u>\$ -</u>	<u>\$ 1,095,248</u>	<u>\$ 260,811</u>	<u>\$ 1,356,059</u>

The accompanying notes are an integral part of these financial statements.

Metro Narcotics Agency
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual—General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
Revenues				
Charges for services	\$ 341,500	\$ 341,500	\$ 341,500	\$ -
Operating grants	-	28,228	28,229	1
Other revenue	-	-	6,720	6,720
Investment earnings (loss)	-	-	(2,660)	(2,660)
Total revenues	<u>341,500</u>	<u>369,728</u>	<u>373,789</u>	<u>4,061</u>
Expenditures				
Current - law enforcement activities				
Personnel	106,260	224,288	164,406	59,882
Repairs and maintenance	38,500	72,683	65,280	7,403
Services	99,661	95,861	91,655	4,206
Supplies	14,815	13,065	11,021	2,044
Insurance	71,014	83,741	83,741	-
Other	11,250	6,390	6,823	(433)
Total expenditures	<u>341,500</u>	<u>496,028</u>	<u>422,926</u>	<u>73,102</u>
Change in fund balance	-	(126,300)	(49,137)	77,163
Fund balance, beginning of the year	<u>290,221</u>	<u>290,221</u>	<u>290,221</u>	<u>-</u>
Fund balance , end of the year	<u>\$ 290,221</u>	<u>\$ 163,921</u>	<u>\$ 241,084</u>	<u>\$ 77,163</u>

The accompanying notes are an integral part of these financial statements.

Metro Narcotics Agency
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual—Seized Assets Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Investment earnings	\$ -	\$ 35,000	\$ 33,388	\$ (1,612)
Other revenues	-	-	12,150	12,150
Total revenues	-	35,000	45,538	10,538
Expenditures				
Current - law enforcement activities				
Services	-	15,006	15,005	1
Supplies	-	33,090	22,729	10,361
Capital outlay	-	8,187	-	8,187
Total expenditures	-	56,283	37,734	18,549
Change in fund balance	-	(21,283)	7,804	29,087
Fund balance, beginning of the year	846,360	846,360	846,360	-
Fund balance, end of the year	\$ 846,360	\$ 825,077	\$ 854,164	\$ 29,087

The accompanying notes are an integral part of these financial statements.

Metro Narcotics Agency
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual—Grant Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Operating grants	\$ 794,688	\$ 770,848	\$ 762,204	\$ (8,644)
Total revenues	<u>794,688</u>	<u>770,848</u>	<u>762,204</u>	<u>(8,644)</u>
Expenditures				
Current - law enforcement activities				
Personnel	147,970	141,899	135,020	6,879
Repairs and maintenance	9,818	726	726	-
Building rental	505,637	524,274	524,274	-
Services	80,263	64,000	62,614	1,386
Supplies	30,500	26,103	26,103	-
Other	20,500	13,846	13,467	379
Total expenditures	<u>794,688</u>	<u>770,848</u>	<u>762,204</u>	<u>8,644</u>
Change in fund balance	-	-	-	-
Fund balance, beginning of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2008

1) Summary of Significant Accounting Policies

Reporting Entity—The Metro Narcotics Agency (Metro) is an organization formed by a joint powers agreement between the City of Las Cruces, the County of Dona Ana, the Regents of New Mexico State University and the New Mexico State Police Department. The Agency is governed by a nine member board comprised of members from the City of Las Cruces, Dona Ana County, the District Attorney’s Office, New Mexico State University Police, and the New Mexico State Police.

The City of Las Cruces is the fiscal agent for Metro and accounts for its resources as agency funds. Metro does not have any component units.

Basis of Presentation, Measurement Focus and Basis of Accounting—The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

Government-Wide—The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Metro has elected to apply FASB statements and interpretations of the Financial Accounting Standards Board issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. Metro has also elected to apply FASB Statements and Interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Nonexchange transactions, in which Metro gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements—Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Metro considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2008

1) Summary of Significant Accounting Policies — continued

Basis of Presentation, Measurement Focus and Basis of Accounting — continued

reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Metro reports the following major governmental funds:

- ◆ General Fund—The general fund accounts for all financial resources except those required to be accounted for in another fund.
- ◆ Seized Assets Fund—The seized assets fund accounts for the proceeds of seized assets received from other law enforcement agencies. In accordance with terms of the Metro joint powers agreement, proceeds received from the sale of seized property are restricted for uses allowed under the Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies (the “Guide”).
- ◆ Grant Fund—The grant fund accounts for the proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Federal and state grants and contracts are accounted for in this fund.

Cash and Cash Equivalents

Metro participates in a pool of cash and investments with the Treasurer of the City of Las Cruces. All pooled cash and investments are fully insured or collateralized.

Capital Assets

Capital assets are recorded at cost or, in the case of donated assets, at fair value at the date of receipt and are depreciated over the estimated useful lives of the related assets. The initial purchase of software meeting Metro’s capital asset definition is capitalized; however, periodic costs for software upgrades are not capitalized due to the rapid change in technology. Depreciation is computed using the straight-line method over estimated useful lives of four to ten years. Metro capitalizes items purchased with grants funded by the High Intensity Drug Trafficking Act that have a unit cost of \$500 or more and an estimated useful life of greater than one year. However, items purchased with other than grant money are only capitalized when they have a net cost of more than \$5,000 and an estimated useful life of greater than one year.

Seized Assets

Seized assets are recorded at the estimated fair market value upon receipt.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2008

1) Summary of Significant Accounting Policies — continued

Basis of Presentation, Measurement Focus and Basis of Accounting — continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Budgets

Metro's budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), using an estimate of anticipated revenues and expenditures. The annual budget is prepared for the general fund, the seized assets fund, and the grant fund. Accordingly separate budgetary statements for individual funds are presented.

2) **Cash and Cash Equivalents**

Metro participates in a pool of cash and investments maintained by the Treasurer of the City of Las Cruces. Pooled cash and investments are reported at fair value.

Cash and investments consist of the following at June 30, 2008:

Equity in City of Las Cruces cash and investment pool	\$ 918,287
Metro Narcotics Agency money market account and petty cash	<u>95,162</u>
Total cash and cash equivalents	<u>\$ 1,013,449</u>

Cash and cash equivalents are reported on the statement of net assets as follows:

Cash and cash equivalents	\$ 159,285
Restricted cash and cash equivalents	<u>854,164</u>
Total	<u>\$ 1,013,449</u>

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2008

2) Cash and Cash Equivalents — continued

The City of Las Cruces cash and investment pool consists of the following:

Carrying amount of bank deposits	\$ (1,985,360)
Investments	128,721,760
Accrued interest	<u>365,028</u>
Total cash and investment pool	<u><u>\$ 127,101,428</u></u>

Bank Balance of Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment ordinance requires collateralization of 50% of the uninsured portion of the City's deposits with financial institutions. Securities pledged by financial institutions are accepted at market value, except obligations of the state of New Mexico and its subdivisions, which are accepted at par value. As of June 30, 2008, the total bank balance of the City's and Metro's deposits was insured by FDIC or collateralized by securities held in trust by a third-party bank for the depository bank in the City's name, and thus was not exposed to custodial credit risk.

Investments

The City's investment policy allows investment in: a) U.S. Treasury obligations; b) U.S. government agency and instrumentality obligations; c) repurchase agreements whose underlying securities and/or collateral consist of allowed investments described in (a) or (b) above; d) commercial paper rated not less than A-1, P-1, F-1, or equivalent by a nationally recognized rating agency; e) pooled funds maintained by the State Treasurer; and f) mutual funds whose portfolios consist solely of allowed investments. In addition, the City may invest money identified as long-term in the pools of the New Mexico State Investment Council subject to annual review and approval by the City Council.

As of June 30, 2008, investments in the City's pool were the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Avg Maturity (Yrs)</u>
Pooled investments		
Money market funds	\$ 21,519,656	0.07
Commercial paper	19,451,144	0.12
U.S. agency discount notes	32,802,250	0.24
U.S. agency coupon bonds	34,340,820	1.34
Collateralized mortgage obligations	4,505,020	1.23
U.S. Treasury Notes	<u>16,102,870</u>	1.28
Total pooled investments	<u><u>\$ 128,721,760</u></u>	0.65

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2008

2) Cash and Cash Equivalents — continued

Investments — continued

Interest Rate Risk. The City's general investment policy is to apply the prudent investor rule to manage its exposure to declines in fair values. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of relatively shorter term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk. The City's investment policy lists the criteria for selecting investments and the order of priority as follows: 1) safety; 2) liquidity; and 3) yield. As of June 30, 2008, the City's investments in the senior unsecured debt and short-term discount notes of U.S. agencies were rated AAA and A-1+, respectively, by Standard & Poor's and Aaa and P-1 by Moody's Investors Service. Mortgage-based securities issued by U.S. agencies were rated AAA by Standard & Poor's and Aaa by Moody's. Positions in commercial paper were rated P-1 by Moody's, A-1 or A-1+ by Standard & Poor's, and F-1+ or not rated by Fitch Ratings. The City's money market fund investments were rated AAAM by Standard & Poor's and/or Aaa by Moody's.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities held in street name with a broker or dealer be insured, and that all other securities be held by the City or a third-party safekeeping financial institution acting as trustee for the City. All of the City's securities are held by a third-party financial institution in the City's name.

Concentration of Credit Risk. The City's formal investment policy places no limit on the amount the City may invest in any one issuer. As of June 30, 2008, 5% of the City's investment pool was in Federal Farm Credit Bank (FFCB), 31% in Federal Home Loan Mortgage Corporation (FHLMC), and 14% in Federal National Mortgage Association (FNMA).

3) **Due From Other Governments**

Metro receives funding from the High Intensity Drug Trafficking Area (HIDTA) grant provided by the United States Office of National Drug Control Policy. As of June 30, 2008, the amount receivable from this funding agency was \$116,920.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2008

4) Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balances June 30, 2007	Additions	Balances June 30, 2008
Equipment	\$ 981,413	\$ -	\$ 981,413
Less accumulated depreciation	615,657	104,945	720,602
Capital assets, net	\$ 365,756	\$ (104,945)	\$ 260,811

Depreciation expense for the year ended June 30, 2008 of \$104,945 was charged to the law enforcement activities function.

5) Risk Management

Metro is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters for which Metro carries commercial insurance to cover these risks. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

6) Joint Powers Agreement

Metro is an organization formed by a joint powers agreement (JPA) between the City of Las Cruces, the County of Dona Ana, the regents of New Mexico State University and the New Mexico State Police Department, dated October 1, 2001, to perform the following:

- ◆ To perform and document through covert and overt investigations of violations of the New Mexico State Statutes and United States Code relating to narcotics and drug related offenses;
- ◆ To arrest, and to assist in the prosecution of, persons accused of drug and drug-related offenses, consistent with the United States Constitution, and other federal and state law;
- ◆ To develop, and confidentially maintain, intelligence data regarding criminal activity in Las Cruces-Dona Ana County area concerning drug and drug-related activities and offenses;

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2008

6) Joint Powers Agreement — continued

- ◆ To collect, maintain and disseminate criminal intelligence including files regarding such criminal activity in accordance with 28 CFT 23;
- ◆ To account for the disposition of all seized property, including illegal narcotics, as well as to account for all federal or state reimbursements for services rendered, commonly referred to as “seized asset funds.”

The JPA continues on a yearly basis unless terminated by the parties.

Metro is governed by a board comprised of nine members; three appointed by the City of Las Cruces, three appointed by the County of Dona Ana, and one each appointed by the District Attorney (or designee), the Chief of New Mexico State University Police (or designee) and the Chief of the New Mexico State Police (or designee). The Special Agent-in-Charge is responsible for the day-to-day operations of Metro.

The City of Las Cruces (the “City”) is the fiscal agent for Metro. The City is responsible to contract for audit services.

The City and the County agree to fund Metro’s operating expenses proportionate to their respective share of the total number of agents assigned to Metro for each fiscal year. The number of agents participating in the task force can vary from year to year. During fiscal year 2008, operating contributions from the City and the County were \$170,750 each.

7) **Employee Retirement System**

Retirement Plan

Substantially all full-time employees of Metro participate in a defined benefit contributory retirement plan through the Public Employees’ Retirement Act (PERA) of the State of New Mexico, a cost-sharing multiple employer public employee retirement system. Benefit provisions are established and may only be amended by state statute. Information pertaining to the actuarially computed present value of vested accumulated plan benefits and nonvested accumulated plan benefits, the plan’s net assets available for benefits and the assumed rate of return used in computing the present value, and ten-year historical trend information presenting PERA’s progress in accumulating sufficient assets to pay benefits when due is not available by individual government agencies participating in the plan. Actuarial pension data for the State of New Mexico, as employer, is provided at the statewide level in a separately issued audit report of PERA. That report may be obtained by writing to PERA, P.O. Box 2123, 1120 Paseo de Peralta, Santa Fe, NM, 87504-2123 or on their internet website at www.state.nm.us/pera/.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2008

7) Employee Retirement System — continued

Retirement Eligibility

Eligibility for receiving the monthly benefit equal to the number of years of credited service times 2.5% of their final average monthly salary, the 36 consecutive months of credited service producing the largest average, is as follows:

- ◆ Employees may retire at:
 - Any age with 25 or more years of credited service
 - Age 60 or older with 20 or more years of credited service
- ◆ All employees are eligible for retirement at:
 - Age 61 or older with 17 or more years of credited service
 - Age 62 or older with 14 or more years of credited service
 - Age 63 or older with 11 or more years of credited service
 - Age 64 or older with 8 or more years of credited service
 - Age 65 or older with 5 or more years of credited service
- ◆ Benefits vest after five years of credited service

Disability Benefits

Members or vested former members with five or more years of credited service will receive their normal retirement pension based on credited service and final average salary at the time of disability or retirement. The five-year service requirement is waived if the disability is incurred in the line of duty. Disability retirements are subject to reevaluation until the member reaches normal retirement. Payment of the disability pension is suspended for the balance of any year in which a disability-retired member does not submit an annual statement of earnings from gainful employment by June 30th of each year or if the amount of earnings in the previous year is more than the amount that causes the suspension of, or a decrease in, the Social Security Old Age Benefit for a 65 year old.

Funding Policy

Participants are required to contribute 13.15% of their eligible wages and Metro is required to contribute 18.5% of eligible wages. Below represents the schedule of contributions for the year ended June 30:

	Contribution		Eligible Wages
	Participant	Metro	
2008	\$ 3,659	\$ 7,753	\$ 51,176
2007	2,291	4,856	32,052
2006	3,173	6,672	44,147

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2008

7) Employee Retirement System — continued

Funding Policy — continued

The remaining salaries and wages expense is for employees not eligible to participate in the plan.

8) **Commitments**

In January 2007, Metro’s facility lease was amended to provide for additional space to accommodate an expansion to facilitate additional investigative support operations. The ten-year operating lease increased the annual rent payments beginning in August 2005. The annual rent payments begin at \$487,000 per year and increase to a maximum of \$654,733 in year 10. The annual rent payment includes substantially all of the utilities and maintenance of the facilities. Metro has the option to renew this lease for a period of up to two additional three-year periods with the annual rent payment adjusted for changes in the consumer price index.

The following is a schedule of minimum annual rent payments under this operating lease agreement.

Year ended June 30,	
2009	\$ 542,911
2010	561,548
2011	580,185
2012	598,822
2013	617,459
2014-2015	<u>1,290,829</u>
	<u>\$ 4,191,754</u>

9) **Interfund Balances**

At June 30, 2008, the grant fund owed \$106,210 to the general fund to pay for certain operational costs of drug intervention activities. These amounts are expected to be paid back within a year.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2008

10) Adjustments

Fund balances of Metro’s governmental funds of \$1,095,248 differ from total net assets of \$1,356,059 reported on the statement of net assets because capital assets are not reported in the funds. Additionally, the net change in fund balances of Metro’s governmental funds differ from the reduction in net assets reported on the statement of activities because capital outlays are reported in the funds and depreciation expense is reported on the statement of activities.

The following is a summary of the differences:

Fund balance	\$ 1,095,248
Capital assets are not financial resources and, therefore, are not reported in the funds	260,811
Net assets	\$ 1,356,059
Net change in fund balances	\$ (41,333)
Depreciation expense	(104,945)
Net change in net assets	\$ (146,278)

11) Related Party Transactions

Metro receives funding from members of the joint powers agreement. During the year ended June 30, 2008, Metro received \$170,750 each from the City of Las Cruces and Dona Ana County.

Supplementary Information

Metro Narcotics Agency
Schedule of Pledged Collateral
June 30, 2008

The City of Las Cruces is the fiscal agent of Metro. Therefore, Metro participates in the City's pooling of cash and investments. The schedule of pledged collateral below represents the amounts that pertain to the City of Las Cruces pooled deposits.

Deposits

Institution/Security	Safe Keeping Location	Market Value
Wells Fargo Bank, NA	Wells Fargo Bank Northwest	
WFBS 01, 5.50%, 06/01/2037, 3128MS7G9		\$ 1,916,077
		<u>\$ 1,916,077</u>

Summary of Collateralization

Wells Fargo Bank		
Ending bank balance		\$ 435,777
Less FDIC insurance		<u>(100,000)</u>
Total uninsured public funds		<u>\$ 335,777</u>
Pledged collateral held by the pledging bank's trust department in the City's name		\$ 1,916,077
50% collateral requirement		<u>167,889</u>
Pledged collateral in excess of requirement		<u>\$ 1,748,188</u>
Uninsured and uncollateralized		<u>\$ -</u>

Metro Narcotics Agency
Schedule of Deposit Accounts and Investments
June 30, 2008

The City of Las Cruces is the fiscal agent of Metro. Therefore, Metro participates in the City's pooling of cash and investments. Details of Metro's cash and cash equivalents are as follows:

Account	Account Type	Pooled Cash & Investments	Metro Narcotics Accounts	Total Reconciled Balance	On Deposit 6/30/2008
Deposit Accounts					
<i>Wells Fargo Bank</i>					
Treasury fund - operating	Checking	\$ (1,353,172)	\$ -	\$ (1,353,172)	\$ 89,503
Payroll direct deposit account	Checking	(206,575)	-	(206,575)	-
On demand	Checking	31,346	-	31,346	50,035
Rio Grande Natural Gas Association Revenue	Checking	(456,959)	-	(456,959)	-
Community Development	Checking	-	-	-	173,533
Community Development Home Rehab	Savings	-	-	-	25,987
Community Development Home Program	Savings	-	-	-	1,557
Metro Narcotics Agency	Savings	-	95,162	95,162	95,162
Total deposit accounts		<u>(1,985,360)</u>	<u>95,162</u>	<u>(1,890,198)</u>	<u>\$ 435,777</u>
Investments					
<i>Wells Fargo Bank</i>					
WF Treas Plus MM Fund - Sweep Account	Sweep	7,439,326	-	7,439,326	
Investment Custody Account	Investment	4,248,320	-	4,248,320	
<i>Wells Capital Management</i>					
CLC Liquidity Management Agency	Investment	103,692,733	-	103,692,733	
<i>Wells Fargo Brokerage Services, LLC</i>					
City of Las Cruces	Brokerage	7,315,599	-	7,315,599	
<i>New Mexico State New Mexigrow LGIP</i>					
Local Agency Investment Fund	Investment	6,025,782	-	6,025,782	
Total investments		<u>128,721,760</u>	<u>-</u>	<u>128,721,760</u>	
Total deposits and investments		126,736,400	95,162	126,831,562	
<i>Accrued Interest Receivable</i>					
Wells Capital Management - Pool		300,284	-	300,284	
Accrued interest - other pooled investments		64,744	-	64,744	
Total cash and investments		127,101,428	95,162	127,196,590	
Less balances in City of Las Cruces funds		126,183,141	-	126,183,141	
Metro cash and investment balances		<u>\$ 918,287</u>	<u>\$ 95,162</u>	<u>\$ 1,013,449</u>	

Report on Internal Control Over Financial
Reporting and Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards*

Mr. Hector Balderas, State Auditor of New Mexico and
the Board of Directors of the Metro Narcotics Agency

We have audited the accompanying financial statements of the governmental activities and each major fund, and budgetary comparisons of the Metro Narcotics Agency (Metro), Las Cruces, New Mexico, as of and for the year ended June 30, 2008, which collectively comprise Metro's basic financial statements and have issued our report thereon dated November 26, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metro's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metro's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Metro's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Metro's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Metro's financial statements that is more than inconsequential will not be prevented or detected by Metro's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Metro's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metro's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 08-01.

Metro's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Metro's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, Metro's management, the New Mexico Department of Finance and Administration and the New Mexico State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

REDW LLC

November 26, 2008

Metro Narcotics Agency
Schedule of Findings and Responses
For the Year Ended June 30, 2008

08-01 — Special Tests and Provisions—Form I-9 (Repeat Finding)

Federal program information:

Funding agency:	Office of National Drug Control Policy
Title:	High Intensity Drug Trafficking Area (HIDTA) Program
CFDA Number:	16.xxx
Award number:	I6PSNP562Z I7PSNP562Z
Award year:	07/01/06 – 12/31/07 07/01/07 – 6/30/09

Criteria: According to Section A of the HIDTA grant document, the recipient of HIDTA funds is required to submit an acceptable equal employment opportunity plan that is approved by the office of civil rights, as well as complete and keep on file the appropriate Citizenship and Immigration Services Employment Eligibility Verification forms (I-9) for each employee.

Condition: I-9 forms for three HIDTA officers could not be located in their personnel files.

Context: Three of four officers selected for testwork did not have an I-9 form in their personnel file.

Cause: Adequate internal controls do not exist that would ensure the appropriate Citizenship and Immigration Services Employment Eligibility Verification forms (I-9) are kept on file for each employee.

Effect: Employees may not be eligible because of their immigration status.

Auditors' Recommendations: Develop internal controls that would ensure the required I-9 form is kept on file for all HIDTA employees.

Management's Response: The City will continue to improve monitoring procedures to ensure proper forms are maintained in employee personnel files.

Metro Narcotics Agency
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2008

Finding: 07-01 — Special Tests and Provisions—Form I-9

Current Status: The finding is repeated in 2008.

Metro Narcotics Agency
Other Disclosures
For the Year Ended June 30, 2008

Exit Conference

An exit conference was conducted on November 17, 2008, in a closed meeting of the Board of Directors pursuant to *Section 12-6-5 NMSA, 1978* with the following individuals in attendance:

Metro Board of Directors

Harry Romero	Board Chair
Dolores Archuleta	Board Member

Metro

Denis Romero	Special Agent in Charge
Lupe Cardenas	Metro Accounting Technician
Yoli Zubia	Metro Office Assistant

City of Las Cruces (Fiscal Agent)

Mark D. Sutter, CPA/Ph.D.	Finance Director
Pat Degman, CGFM	Comptroller
Ken Miyagishima	Mayor
Terrence Moore	City Manager
Audrey Evins	Internal Auditor
Cynthia Vigil	Accounting Supervisor
Melissa Nelson	Accounting Supervisor

REDW_{LLC}

Bruce Bleakman	Principal
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Financial Statement Preparation

The City's Accounting Department prepared the accompanying financial statements; however, Metro is responsible for the financial statement content.