



Metro Narcotics Agency

Financial Statements and
Independent Auditors' Report
June 30, 2009

REDW

Metro Narcotics Agency

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Metro Narcotics Agency
June 30, 2009

BOARD OF DIRECTORS

The Board of Directors, none of whom are employed by the Metro Narcotics Agency for the year ended June 30, 2009, are:

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

Independent Auditors' Report

Mr. Hector Balderas, New Mexico State Auditor 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, 2009, 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, 2009, 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 16, 2009, 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 to meet the requirements of the State of New Mexico Office of the State Auditor, 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 16, 2009

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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, 2009. 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.

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, 2009

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, 2009

Financial Analysis of Metro Narcotics

Net Assets. The governmental net assets decreased to \$1,266,278 in FY 09 from \$1,356,059 in FY 08. Table 1 summarizes the net assets for its governmental activities.

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

	2009	2008
Current assets	\$ 1,080,697	\$ 1,130,369
Capital assets, net	200,193	260,811
Total assets	\$ 1,280,890	\$ 1,391,180
Current and other liabilities	\$ 14,612	\$ 35,121
Total liabilities	14,612	35,121
Net assets		
Invested in capital assets	200,193	260,811
Restricted for seized assets	868,395	854,164
Unrestricted	197,690	241,084
Total net assets	1,266,278	1,356,059
Total liabilities and net assets	\$ 1,280,890	\$ 1,391,180

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Changes in Net Assets. Total revenues for the year ended June 30, 2009 were \$1,350,255 compared with expenses of \$1,440,036. Total revenues for the year ended June 30, 2008 were \$1,181,531 compared with expenses of \$1,327,809.

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

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

	2009	2008
Revenues		
Program revenues		
Operating grants	\$ 823,358	\$ 790,433
Charges for services	451,084	341,500
General revenue		
Other revenues	59,816	18,870
Investment income	15,997	30,728
Total revenue	1,350,255	1,181,531
Expenses-law enforcement	1,440,036	1,327,809
Change in net assets	(89,781)	(146,278)
Net assets, beginning of year	1,356,059	1,502,337
Net assets, end of year	\$ 1,266,278	\$ 1,356,059

Grant Activities. Grants awarded for fiscal year 2009 included a grant for \$799,219 that pays for facility rental and other operating costs. A balance of \$39,794 will be available for use in fiscal year 2010 from the current year grant. A balance from fiscal year 2008 grant of \$8,643 was expended in fiscal year 2009. Funds from fiscal year 2010 grant of \$1,005 were expended in fiscal year 2009.

Budgetary Information

The board of directors approves the annual budget and, when necessary, revisions to the existing budget. 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, 2009 and 2008, respectively.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Table 3
Budgetary Comparison – Aggregate of All Funds
Year Ended June 30, 2009

	Budget		Actual	Variance	Percent Variance
	Original	Final			
Revenues					
Operating grants	\$ 757,102	\$ 844,767	\$ 823,358	\$ (21,409)	-3%
Charges for services	451,086	451,086	451,084	(2)	0%
Investment income	35,000	35,000	15,997	(19,003)	-54%
Other	-	-	59,816	59,816	0%
Total revenue	<u>1,243,188</u>	<u>1,330,853</u>	<u>1,350,255</u>	<u>19,402</u>	1%
Expenditures					
Law enforcement	1,138,522	1,398,959	1,329,238	69,721	5%
Capital outlay	8,187	8,187	50,180	(41,993)	-513%
Total expenditures	<u>1,146,709</u>	<u>1,407,146</u>	<u>1,379,418</u>	<u>27,728</u>	2%
Revenues under (over) expenditures	<u>\$ 96,479</u>	<u>\$ (76,293)</u>	<u>\$ (29,163)</u>	<u>\$ 47,130</u>	62%

In fiscal year 2009 the difference 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 a lower than expected return on investments as a result of the economy, and an unscheduled purchase of capital assets in the amount of \$50,180.

Table 4
Budgetary Comparison – Aggregate of all Funds
Year Ended June 30, 2008

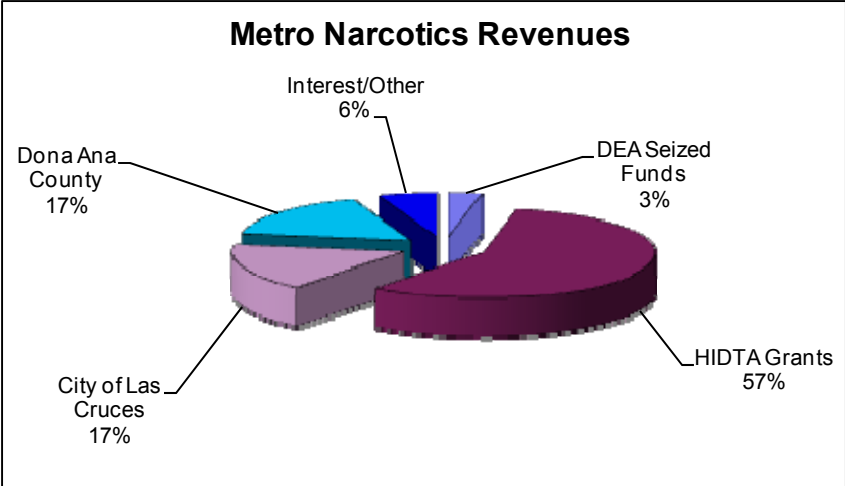
	Budget		Actual	Variance	Percent Variance
	Original	Final			
Revenues					
Operating grants	\$ 794,688	\$ 799,076	\$ 790,433	\$ (8,643)	-1%
Charges for services	341,500	341,500	341,500	-	0%
Investment income	-	35,000	30,728	(4,272)	-12%
Other	-	-	18,870	18,870	0%
Total revenue	<u>1,136,188</u>	<u>1,175,576</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%

**Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2009**

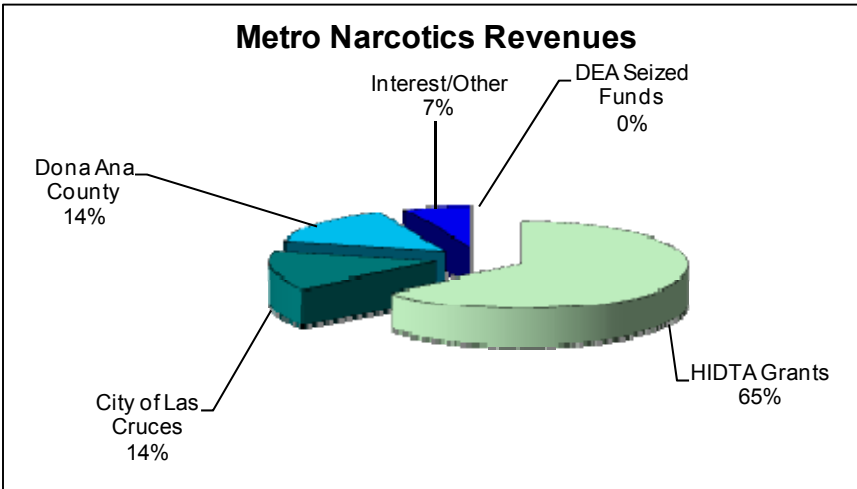
In fiscal year 2008 the differences between the original budget and the final budget result from increases in law enforcement activities. The differences between the final budget and the actual results are related to the sale of capital assets in the amount of \$12,150 that was not included in the budget,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

Charts 1 and 2 show the revenues by source for fiscal years 2009 and 2008, respectively.

**Chart 1
2009 Revenues by Source**



**Chart 2
2008 Revenues by Source**



Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Capital Assets

Capital Assets—As of June 30, 2009, the organization's capital assets totaled \$200,193 net of accumulated depreciation of \$831,400. As of June 30, 2008, the organization's capital assets totaled \$260,811 net of accumulated depreciation of \$720,602.

Table 5 provides details of the net capital assets.

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

	Balances June 30, 2008	Additions	Balances June 30, 2009
Equipment	\$ 981,413	\$ 50,180	\$ 1,031,593
Less accumulated depreciation	<u>720,602</u>	<u>110,798</u>	<u>831,400</u>
Capital assets, net	<u>\$ 260,811</u>	<u>\$ (60,618)</u>	<u>\$ 200,193</u>

Metro capitalizes assets with an acquisition cost of \$500 or more and a useful life of greater than one year. During fiscal year 2009, Metro purchased assets that totaled \$50,180 while no additions were made in fiscal year 2008.

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 only population. The construction industry has shown a sharp drop in fiscal year 2009 and lodging tax receipts reflect the cutback in discretionary spending as a result of pervasive job losses in most states including New Mexico.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Table 6
Las Cruces Economic Indicators

Item	Fiscal Year		Change	
	2009	2008	Number	Percent
Total Employment (MSA)*	68,808	69,075	(267)	-0.4%
Lodging Tax Receipts	\$1,663,616	\$1,785,109	\$ (121,493)	-6.8%
Gross Receipts Tax	\$70,169,219	\$72,665,014	\$ (2,495,795)	-3.4%
Single Family Building Permits	562	675	(113)	-16.7%
Total Permit Valuation (Millions)	\$182.1	\$184.9	\$ (2.8)	-1.5%
Population Estimate**	91,865	89,722	2,143	2.4%

* Preliminary - Data for Metropolitan Statistical Area

** Census Bureau Estimates as of July 1

For fiscal year 2009/2010 the economic assumptions anticipate slow economic activity as the national economy begins to heal. The City's largest revenue source is the gross receipts tax (GRT). The recent past has seen exceptional growth from this source fueled by rapid construction activity centered on residential housing. This changed in fiscal year 2008 and fell further in fiscal year 2009. Single family permits fell by one fifth. Total valuation, while down, was buoyed in part by commercial activity.

The City continues to benefit from its geographical location and environmental qualities. The outlook calls for overall construction activity to bottom out in 2009, striking a level that is more in balance with population growth. A countervailing factor is the ongoing construction of a number of public projects by the City, Federal Government and the Las Cruces Public School district. These projects are all scheduled to be completed by the end of Fiscal Year 2011.

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
(575) 528-4200

Financial Statements

Metro Narcotics Agency
Statement of Net Assets and Governmental Funds Balance Sheet
June 30, 2009

	General Fund	Seized Assets Fund	Grant Fund	Total	Adjustments (Note 10)	Statement of Net Assets
Assets						
Current assets						
Pooled cash and investments	\$ 162,338	\$ -	\$ -	\$ 162,338	\$ -	\$ 162,338
Restricted cash and investments	-	868,395	-	868,395	-	868,395
Due from grant fund	47,461	-	-	47,461	(47,461)	-
Due from other governments	-	-	49,964	49,964	-	49,964
Total current assets	<u>209,799</u>	<u>868,395</u>	<u>49,964</u>	<u>1,128,158</u>	<u>(47,461)</u>	<u>1,080,697</u>
Capital assets - equipment, net	-	-	-	-	200,193	200,193
Total assets	<u>\$ 209,799</u>	<u>\$ 868,395</u>	<u>\$ 49,964</u>	<u>\$ 1,128,158</u>	<u>\$ 152,732</u>	<u>\$ 1,280,890</u>
Liabilities						
Current liabilities						
Due to Metro general fund	\$ -	\$ -	\$ 47,461	\$ 47,461	\$ (47,461)	\$ -
Accounts payable	7,578	-	10	7,588	-	7,588
Accrued payroll liabilities	4,531	-	2,493	7,024	-	7,024
Total current liabilities	<u>12,109</u>	<u>-</u>	<u>49,964</u>	<u>62,073</u>	<u>(47,461)</u>	<u>14,612</u>
Fund Balance/Net Assets						
Reserved for seized assets	-	868,395	-	868,395	(868,395)	-
Unreserved	197,690	-	-	197,690	(197,690)	-
Total fund balance	<u>197,690</u>	<u>868,395</u>	<u>-</u>	<u>1,066,085</u>	<u>(1,066,085)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 209,799</u>	<u>\$ 868,395</u>	<u>\$ 49,964</u>	<u>\$ 1,128,158</u>		
Net assets						
Invested in capital assets					200,193	200,193
Restricted for seized assets					868,395	868,395
Unrestricted					197,690	197,690
Total net assets					<u>200,193</u>	<u>1,266,278</u>
Total liabilities and net assets					<u>\$ 152,732</u>	<u>\$ 1,280,890</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, 2009

	General Fund	Seized Assets Fund	Grant Fund	Total	Adjustments (Note 10)	Statement of Activities
Revenues						
Operating grants	\$ 52,872	\$ -	\$ 770,486	\$ 823,358	\$ -	\$ 823,358
Charges for services	451,084	-	-	451,084	-	451,084
Investment earnings (loss)	(6,837)	22,834	-	15,997	-	15,997
Other revenues	8,333	51,483	-	59,816	-	59,816
Total revenues	<u>505,452</u>	<u>74,317</u>	<u>770,486</u>	<u>1,350,255</u>	<u>-</u>	<u>1,350,255</u>
Expenditures/Expenses						
Current - law enforcement activities						
Personnel	234,523	-	132,112	366,635	-	366,635
Repairs and maintenance	97,145	-	501	97,646	-	97,646
Building rental	-	-	546,594	546,594	-	546,594
Services	109,080	-	50,989	160,069	-	160,069
Supplies	16,242	9,906	27,365	53,513	-	53,513
Insurance	83,453	-	-	83,453	-	83,453
Other	8,403	-	12,925	21,328	-	21,328
Depreciation	-	-	-	-	110,798	110,798
Capital outlay	-	50,180	-	50,180	(50,180)	-
Total expenditures/expenses	<u>548,846</u>	<u>60,086</u>	<u>770,486</u>	<u>1,379,418</u>	<u>60,618</u>	<u>1,440,036</u>
Revenues over (under) expenditures/expenses	(43,394)	14,231	-	(29,163)	(60,618)	(89,781)
Fund balances/net assets, beginning of the year	241,084	854,164	-	1,095,248	260,811	1,356,059
Fund balances/net assets, end of the year	<u>\$ 197,690</u>	<u>\$ 868,395</u>	<u>\$ -</u>	<u>\$ 1,066,085</u>	<u>\$ 200,193</u>	<u>\$ 1,266,278</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, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
Revenues				
Charges for services	\$ 451,086	\$ 451,086	\$ 451,084	\$ -
Operating grants	-	27,204	52,872	25,668
Other revenue	-	-	8,333	8,333
Investment loss	-	-	(6,837)	(6,837)
Total revenues	<u>451,086</u>	<u>478,290</u>	<u>505,452</u>	<u>27,164</u>
Expenditures				
Current - law enforcement activities				
Personnel	144,000	232,857	234,523	(1,666)
Repairs and maintenance	66,000	88,869	97,145	(8,276)
Services	47,150	100,210	109,080	(8,870)
Supplies	15,000	16,734	16,242	492
Insurance	88,114	84,566	83,453	-
Other	150	10,064	8,403	1,661
Total expenditures	<u>360,414</u>	<u>533,300</u>	<u>548,846</u>	<u>(15,546)</u>
Change in fund balance	90,672	(55,010)	(43,394)	11,618
Fund balance, beginning of the year	<u>241,084</u>	<u>241,084</u>	<u>241,084</u>	<u>-</u>
Fund balance, end of the year	<u>\$ 331,756</u>	<u>\$ 186,074</u>	<u>\$ 197,690</u>	<u>\$ 11,618</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, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
Revenues				
Investment earnings	\$ 35,000	\$ 35,000	\$ 22,834	\$ (12,166)
Other revenues	-	-	51,483	51,483
Total revenues	<u>35,000</u>	<u>35,000</u>	<u>74,317</u>	<u>39,317</u>
Expenditures				
Current - law enforcement activities				
Services	15,006	15,006	-	15,006
Supplies	6,000	33,090	9,906	23,184
Capital outlay	<u>8,187</u>	<u>8,187</u>	50,180	<u>(41,993)</u>
Total expenditures	<u>29,193</u>	<u>56,283</u>	60,086	<u>(3,803)</u>
Change in fund balance	5,807	(21,283)	14,231	35,514
Fund balance, beginning of the year	<u>854,164</u>	<u>854,164</u>	854,164	-
Fund balance , end of the year	<u><u>\$ 859,971</u></u>	<u><u>\$ 832,881</u></u>	<u><u>\$ 868,395</u></u>	<u><u>\$ 35,514</u></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—Grant Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
Revenues				
Operating grants	\$ 757,102	\$ 817,563	\$ 770,486	\$ (47,077)
Total revenues	<u>757,102</u>	<u>817,563</u>	<u>770,486</u>	<u>(47,077)</u>
Expenditures				
Current - law enforcement activities				
Personnel	112,027	170,894	132,112	38,782
Repairs and maintenance	7,212	501	501	-
Building rental	547,210	546,594	546,594	-
Services	53,081	56,382	50,989	5,393
Supplies	24,032	27,079	27,365	(286)
Other	13,540	16,113	12,925	3,188
Total expenditures	<u>757,102</u>	<u>817,563</u>	<u>770,486</u>	<u>47,077</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>	<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, 2009

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 and 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 applies statements and interpretations of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, 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 reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2009

1) Summary of Significant Accounting Policies — continued

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

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 Investments

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.

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.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2009

1) Summary of Significant Accounting Policies — continued

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

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. Actual expenditures exceeded budgeted expenditures by \$41,993 in the Seized Assets Fund as a result of an unbudgeted capital asset purchase and by \$15,546 in the general fund as a result of unbudgeted personnel, repairs and maintenance and services expenditures.

2) **Cash and Investments**

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, 2009:

Equity in City of Las Cruces cash and investment pool	\$ 935,250
Metro Narcotics Agency money market account and petty cash	<u>95,483</u>
Total cash and investments	<u>\$ 1,030,733</u>

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

Cash and investments	\$ 162,338
Restricted cash and investments	<u>868,395</u>
Total	<u>\$ 1,030,733</u>

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

Carrying amount of bank deposits	\$ (3,805,499)
Investments	110,719,136
Accrued interest	<u>313,562</u>
Total cash and investment pool	<u>\$ 107,227,199</u>

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2009

2) Cash and Investments — continued

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, 2009, the City’s deposits, totaling \$375,766, was 100% insured by FDIC, and thus was not exposed to custodial credit risk.

Investments

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, 2009, 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-backed 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 and A-1 or A-1+ by Standard & Poor’s. The City’s money market fund investments were rated AAAM by Standard & Poor’s and/or Aaa by Moody’s.

As of June 30, 2009, the City’s investment pool had the following investments:

Investment Type	Fair Value	Weighted Avg Maturity (Yrs)
Pooled Investments		
Money market funds	\$ 13,870,209	0.08
Commercial Paper	6,986,440	0.19
U.S. agency discount notes	70,529,770	0.42
U.S. agency coupon bonds	3,014,700	1.81
Collateralized mortgage obligations	3,160,887	0.92
U. S. Treasury notes	<u>13,157,130</u>	0.51
Total pooled investments	<u>\$ 110,719,136</u>	0.43

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.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2009

2) Cash and Investments — continued

Investments — continued

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, 2009, 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-backed 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 and A-1 or A-1+ by Standard & Poor's. The City's money market fund investments were rated AAAM by Standard & Poor's and/or Aaa by Moody's.

The City invests in the New Mexico State Treasurer's Local Government Investment Pool (LGIP). LGIP operates as a money market fund, maintaining a \$1.00 per share net asset value. On September 16, 2008, LGIP held investments in the Reserve Primary Fund, which was downgraded from "AAA" to "D." The amounts and timing of future distributions from the Reserve Primary Fund are uncertain. LGIP provided for its potential loss in that Fund by transferring proportionate amounts of the City's investments in LGIP as of September 16, 2008, to a Reserve Contingency Fund, a non-performing fund that represents claims against future distributions of principal from the Reserve Primary Fund. As of June 30, 2009, \$144,761 of the City's pool investments in LGIP was in the Reserve Contingency Fund and was written down to a fair value of \$0.00. On October 7, 2009, the City recovered \$27,340 of the amount written off for fiscal year 2009.

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. As of June 30, 2009, all of the City's securities were 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, 2009, 25% of the City's investment pool was in Federal Home Loan Bank (FHLB), 27% in Federal Home Loan Mortgage Corporation (FHLMC), and 17% in Federal National Mortgage Association (FNMA).

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2009

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, 2009, the amount receivable from this funding agency was \$49,964.

4) Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>Balances</u>		<u>Balances</u>
	<u>June 30, 2008</u>	<u>Additions</u>	<u>June 30, 2009</u>
Equipment	\$ 981,413	\$ 50,180	\$ 1,031,593
Less accumulated depreciation	<u>720,602</u>	<u>110,798</u>	<u>831,400</u>
Capital assets, net	<u>\$ 260,811</u>	<u>\$ (60,618)</u>	<u>\$ 200,193</u>

Depreciation expense for the year ended June 30, 2009 of \$110,798 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;

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2009

6) **Joint Powers Agreement — continued**

- ◆ 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;
- ◆ 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 2009, operating contributions from the City and the County were \$225,542 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

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2009

7) Employee Retirement System — continued

Retirement Plan — continued

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/.

Retirement Eligibility

Eligibility for receiving the monthly benefit equal to the number of years of credited service times 3.0 % (3.5% for police plan employees) 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
 - If you are a police officer, you are eligible for normal retirement at any age with 20 or more years of service credit.
- ◆ 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.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2009

7) Employee Retirement System — continued

Funding Policy

The City has chosen to enroll in a plan that requires the following contribution percentages:

	City	Employees
Police	18.50%	16.30%
All other contributing employees	11.65%	10.65%

Contribution requirements for the years ended are as follows:

	Contribution		Eligible Wages	Percentage Contributed
	Participant	Metro		
2009	\$ 5,987	\$ 8,487	\$ 56,216	100%
2008	3,659	7,753	51,176	100%
2007	2,291	4,856	32,052	100%

If a member's employment is terminated before the member is eligible for other benefits under PERA, the member may receive a refund of the member's contribution and interest accrued based on rates established biannually by the retirement board.

Retiree Health Care Plan

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 (the "Authority") is the administrator of the plan and determines required contributions under authority of the Act. 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.

Eligible employers include 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.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2009

7) Employee Benefit Plans — continued

Retiree Health Care Plan — continued

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 before the employer's NMRHCA effective date, in which event the time period for contributions becomes the time between the employer's effective date and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990; and former legislators who served at least two years.

Each participating employer makes contributions to the fund in the amount of 1.3 percent of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution equal to .65 percent of the employee's annual salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional participation fee of five dollars if the eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator and made no contributions to the plan. After retirement, premiums are paid to the Authority by the retiree.

Metro has paid all of the employers' required contributions, which were as follows:

2009	\$	728
2008		673
2007		544

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 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, 4308 Carlisle Blvd, NE, Suite 104, Albuquerque, New Mexico 87109.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2009

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,	
2010	\$ 561,548
2011	580,185
2012	598,822
2013	617,459
2014	636,096
2015	654,733
	<u>\$ 3,648,843</u>

9) Interfund Balances

At June 30, 2009, the grant fund owed \$47,461 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.

10) Adjustments

Fund balances of Metro's governmental funds of \$1,066,085 differ from total net assets of \$1,266,278 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.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2009

10) Adjustments — continued

The following is a summary of the differences:

Fund balance	\$ 1,066,085
Capital assets are not financial resources and, therefore, are not reported in the funds	<u>200,193</u>
Net assets	<u><u>\$ 1,266,278</u></u>
Net change in fund balances	\$ (29,163)
Capital outlay	50,180
Depreciation expense	<u>(110,798)</u>
Net change in net assets	<u><u>\$ (89,781)</u></u>

11) **Related Party Transactions**

Metro receives funding from members of the joint powers agreement. During the year ended June 30, 2009, Metro received \$225,542 from both the City of Las Cruces and Dona Ana County.

Supplementary Information

Metro Narcotics Agency
Schedule of Pledged Collateral
June 30, 2009

The City of Las Cruces is the fiscal agent of Metro and 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

No collateral was pledged as of June 30, 2009.

Summary of Insurance and Collateralization

	Interest Bearing Accounts	Non-interest Bearing Accounts*	Total
Wells Fargo Bank			
Ending bank balance	\$ 117,465	\$ 258,301	\$ 375,766
Less: FDIC insurance coverage	<u>(250,000)</u>	<u>(258,301)</u>	<u>(508,301)</u>
Excess of insurance coverage over deposits	<u>\$ (132,535)</u>	<u>\$ -</u>	<u>\$ (132,535)</u>

* On October 14, 2008, the FDIC announced the Temporary Liquidity Guarantee Program. The program provides full deposit insurance coverage for non-interest bearing deposit transaction accounts in FDIC-insured institutions, regardless of the amount.

Metro Narcotics Agency
Schedule of Deposit Accounts and Investments
June 30, 2009

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 investments are as follows:

Account	Account Type	Pooled Cash & Investments	Metro Narcotics Accounts	Total Reconciled Balance	On Deposit 6/30/2009
Deposit Accounts					
<i>Wells Fargo Bank</i>					
Community Development	Checking	\$ -	\$ -	\$ -	\$ 199,100
Community Development Home Rehab	Savings	-	-	-	20,716
Community Development Home Program	Savings	-	-	-	1,366
Metro Narcotics Agency	Savings	-	95,383	95,383	95,383
Treasury Fund - Operating	Checking	(3,468,113)	-	(3,468,113)	24,077
Payroll Direct Deposit Account	Checking	(57,135)	-	(57,135)	-
On Demand	Checking	30,562	-	30,562	35,124
Rio Grande Natural Gas Assoc Revenue	Checking	(310,813)	-	(310,813)	-
Total deposit accounts		<u>(3,805,499)</u>	<u>95,383</u>	<u>(3,710,116)</u>	<u>\$ 375,766</u>
Investments					
<i>Wells Fargo Bank</i>					
Investment Custody Account	Investment	55,604	-	55,604	
WF Treas Plus MM Fund - Sweep Acct	Sweep	4,005,243	-	4,005,243	
<i>Wells Capital Management</i>					
CLC Liquidity Management Agency	Investment	97,328,966	-	97,328,966	
<i>Wells Fargo Brokerage Services, LLC</i>					
City of Las Cruces	Brokerage	6,372,223	-	6,372,223	
<i>New Mexico State New Mexigrow LGIP</i>					
Pooled Investments	Investment	<u>2,957,100</u>	<u>-</u>	<u>2,957,100</u>	
Total investments		<u>110,719,136</u>	<u>-</u>	<u>110,719,136</u>	
Total deposits and investments		106,913,637	95,383	107,009,020	
<i>Other Cash</i>					
Petty Cash & Change Funds		-	100	100	
<i>Accrued Interest Receivable</i>					
Accrued Interest - Other Pooled Investments	Accrued Int	257	-	257	
Wells Capital Management - Pool	Accrued Int	<u>313,305</u>	<u>-</u>	<u>313,305</u>	
Total cash and investments		<u>107,227,199</u>	<u>95,483</u>	<u>107,322,682</u>	
Less balances in City of Las Cruces funds		<u>106,291,949</u>	<u>-</u>	<u>106,291,949</u>	
Metro Cash and Investment Balances		<u>\$ 935,250</u>	<u>\$ 95,483</u>	<u>\$ 1,030,733</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, New Mexico State Auditor 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, 2009, which collectively comprise Metro's basic financial statements and have issued our report thereon dated November 16, 2009. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed a matter that is required to be reported under New Mexico State Auditor Rule 2 NMAC 2.2, *Requirements for Contracting and Conducting Audits of Agencies*, which is described in the accompanying schedule of state auditor rule findings as SA 09-1.

Metro's response to the finding identified in our audit is described in the accompanying schedule of state auditor rule findings. 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 16, 2009

Metro Narcotics Agency
Schedule of State Auditor Rule Findings
For the Year Ended June 30, 2009

The following finding is reported in accordance with 2.2.2 NMAC Audit Rule, *Requirements for Contracting and Conducting Audits of Agencies*.

SA 09-1 — Actual Expenditures Exceeded Budgeted Expenditures

Condition: The following funds over-expended budgeted amounts as of June 30, 2009:

- General Fund (\$15,546)
- Seized Assets Fund (\$3,803)

Criteria: 2.2.2.10 P NMAC requires that if actual expenditures exceed budgeted expenditures it must be reported as a finding.

Context: Two funds over-expended approved budgeted amounts.

Effect: Actual expenditures exceed budgeted amounts in two of Metro's funds.

Cause: Procedures were not in place to ensure budgetary compliance.

Auditors' Recommendations: Establish adequate procedures to monitor budget compliance and prohibit spending exceeding budgeted amounts. Unfavorable variances should be investigated to ensure that program directors are spending according to the adopted budget.

Management's Response: Metro Narcotics Agency will establish procedures to identify budget overruns more timely and investigate unfavorable variances.

Metro Narcotics Agency
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2009

Prior year finding: 08-01 — Special Tests and Provisions—Form I-9

Current Status: The finding was resolved in 2009.

Metro Narcotics Agency
Corrective Action Plan
For the Year Ended June 30, 2009

Audit Finding	Corrective Action Plan	Person Responsible	Estimated Completion Date
SA 09-01			
Actual Expenditures Exceeded Budgeted Expenditures	Metro will establish monitoring procedures to identify budget overruns more timely and investigate unfavorable variances.	Metro Special Agent in Charge	June 30, 2010

Metro Narcotics Agency
Other Disclosures
For the Year Ended June 30, 2009

Exit Conference

An exit conference was conducted on November 16, 2009, in a closed meeting of the Board of Directors pursuant to *Section 12-6-5 NMSA, 1978* with the following individuals in attendance:

<u>Organization/ Name</u>	<u>Position</u>
<u>Metro</u>	
Joseph Gonzales	Director
Yolanda Zubia	Metro Office Assistant
<u>City of Las Cruces (Fiscal Agent)</u>	
Mark D. Sutter, CPA/Ph.D.	Finance Director
Pat Degman, CGFM	Comptroller
Audrey Evins	Internal Auditor
Cynthia Vigil	Accounting Supervisor
Melissa Nelson	Accounting Supervisor
<u>REDW_{LLC}</u>	
Bruce Bleakman	Principal

The exit conference materials were reviewed and discussed by following on November 23, 2009:

<u>Organization/ Name</u>	<u>Position</u>
<u>Metro</u>	
Terrance Moore	Board Member
<u>City of Las Cruces (Fiscal Agent)</u>	
Pat Degman, CGFM	Comptroller
<u>REDW_{LLC}</u>	
Bruce Bleakman	Principal
Michele	Senior Accountant

Financial Statement Preparation

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