



Metro Narcotics Agency
Financial Statements and
Independent Auditors' Report
June 30, 2010

Metro Narcotics Agency

Table of Contents

	<u>Page</u>
Board of Directors	1
Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-11
Basic Financial Statements	
Statement of Net Assets and Governmental Funds Balance Sheet	12
Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances	13
Statement of Revenues, Expenditures and Changes in Fund Balance— Budget and Actual—General Fund	14
Statement of Revenues, Expenditures and Changes in Fund Balance— Budget and Actual—Seized Assets Fund	15
Statement of Revenues, Expenditures and Changes in Fund Balance— Budget and Actual—Grant Fund	16
Notes to Financial Statements	17-28
Supplementary Information	
Schedule of Pledged Collateral	29
Schedule of Deposit Accounts and Investments	30
Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	31-32
Schedule of Findings and Responses	33
Summary Schedule of Prior Audit Findings	34
Other Disclosures	35

Metro Narcotics Agency
June 30, 2010

BOARD OF DIRECTORS

The Board of Directors, none of whom are employed by the Metro Narcotics Agency for the year ended June 30, 2010, are:

Todd Garrison	Chairman
Richard Williams	Vice Chairman
Ken Miyagishima	Board Member
Terrence Moore	Board Member
Brian Haines	Board Member
Susana Martinez	Board Member
Roman Jimenez	Board Member
Dolores Saldana-Caviness	Board Member
Keythan Park	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, 2010, which collectively comprise Metro's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Metro's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Metro as of June 30, 2010, 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 17, 2010, 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 17, 2010

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2010

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, 2010. 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 and Dona Ana County, New Mexico 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. 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.

The statement of net assets and the statement of activities are organization-wide, providing 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.

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.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2010

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).

The governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance are fund financial statements that provide detailed information about the individual funds—not Metro Narcotics as a whole. Fund financial statements also present budgetary comparisons. These funds focus 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 funds provide 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 basic financial statements and provide more detail. The statements are followed by a section of supplementary information.

Fiscal Agent

The City of Las Cruces is the fiscal agent for Metro Narcotics. As fiscal agent, the City establishes funds to account for money allocated to a particular purpose, and to demonstrate compliance with requirements of certain grants.

Financial Analysis of Metro Narcotics as a Whole

Net Assets—Governmental net assets increased to \$1,345,583 in 2010 from \$1,266,278 in 2009.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Table 1 summarizes the net assets of its governmental activities.

Table 1
Net Assets
As of June 30,

	<u>2010</u>	<u>2009</u>
Current assets	\$ 1,141,624	\$ 1,080,697
Capital assets, net	<u>233,737</u>	<u>200,193</u>
Total assets	<u>\$ 1,375,361</u>	<u>\$ 1,280,890</u>
Current and other liabilities	<u>\$ 29,778</u>	<u>\$ 14,612</u>
Total liabilities	<u>29,778</u>	<u>14,612</u>
Net Assets		
Invested in capital assets	233,737	200,193
Restricted for seized assets	936,138	868,395
Unrestricted	<u>175,708</u>	<u>197,690</u>
Total net assets	<u>1,345,583</u>	<u>1,266,278</u>
Total liabilities and net assets	<u>\$ 1,375,361</u>	<u>\$ 1,280,890</u>

Changes in Net Assets—Total revenues for the year ended June 30, 2010 were \$1,550,535 compared with expenses of \$1,471,230. Total revenues for the year ended June 30, 2009 were \$1,350,255 compared with expenses of \$1,440,036.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2010

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

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

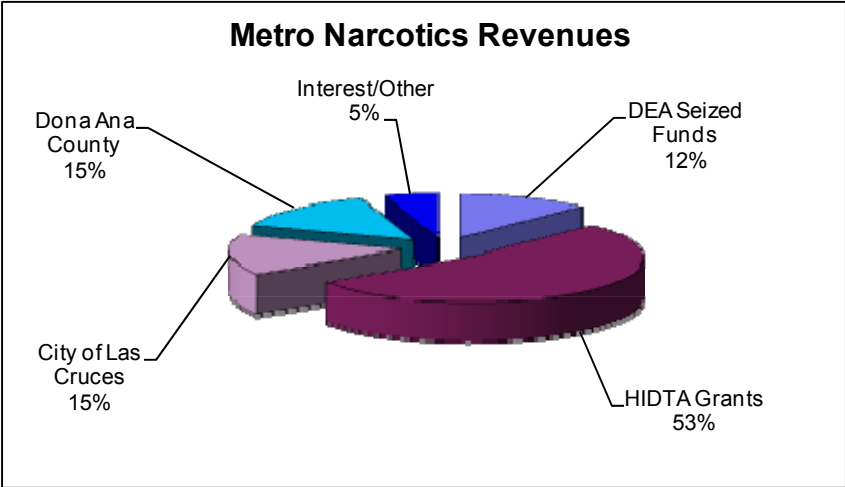
	2010	2009
Revenues		
Program revenues		
Operating grants	\$ 886,573	\$ 823,358
Charges for services	451,085	451,084
General revenue		
Other revenues	192,670	59,816
Investment income	20,207	15,997
Total revenue	1,550,535	1,350,255
Expenses-law enforcement	1,471,230	1,440,036
Change in net assets	79,305	(89,781)
Net assets, beginning of year	1,266,278	1,356,059
Net assets, end of year	\$ 1,345,583	\$ 1,266,278

Grant Activities—Fiscal year 2010 grants included an \$822,764 grant for facility rental and other operating costs. A balance of \$31,880 will be available for use in fiscal year 2011 from the current year grant. A balance from fiscal year 2009 grant of \$37,777 was expended in fiscal year 2010. Funds from fiscal year 2010 grant of \$1,005 were expended in fiscal year 2010.

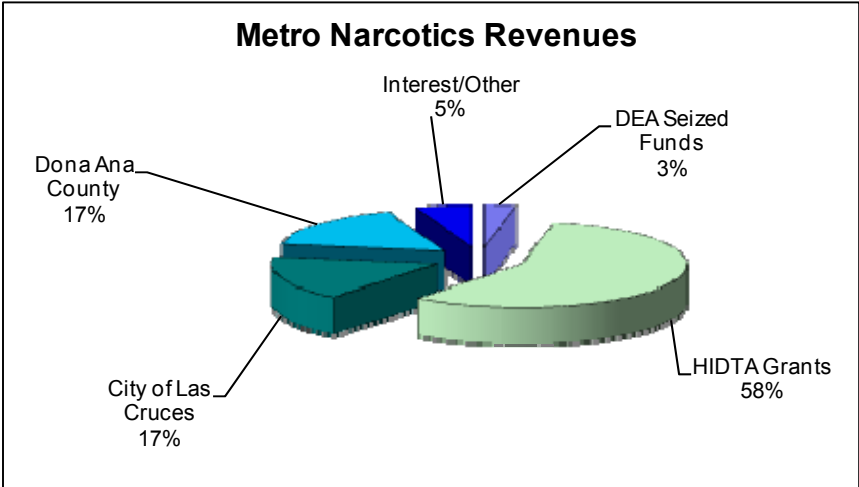
**Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Charts 1 and 2 show the revenues by source for fiscal years 2010 and 2009, respectively.

**Chart 1
2010 Revenues by Source**



**Chart 2
2009 Revenues by Source**



Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2010

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. Table 3 summarizes the variance between the budgeted and actual expenditures for the year ended June 30, 2010.

Table 3
Budgetary Comparison – Aggregate of All Funds
For the Year Ended June 30, 2010

	Budget		Actual	Variance	Percent Variance
	Original	Final			
Revenues					
Operating grants	\$ 813,779	\$ 1,001,054	\$ 886,573	\$ (114,481)	-11%
Charges for services	471,086	451,086	451,085	(1)	0%
Investment income	-	-	20,207	20,207	0%
Other	-	-	<u>192,670</u>	<u>192,670</u>	0%
Total revenue	<u>1,284,865</u>	<u>1,452,140</u>	<u>1,550,535</u>	<u>98,395</u>	7%
Expenditures					
Law enforcement	1,264,864	1,466,439	1,385,580	80,859	6%
Capital outlay	-	150,000	<u>119,194</u>	<u>30,806</u>	21%
Total expenditures	<u>1,264,864</u>	<u>1,616,439</u>	<u>1,504,774</u>	<u>111,665</u>	7%
Revenues over (under) expenditures	<u>\$ 20,001</u>	<u>\$ (164,299)</u>	<u>\$ 45,761</u>	<u>\$ 210,060</u>	128%

In fiscal year 2010, the difference between the original budget and the final budget is a result from increased grant funding during the fiscal year. The differences between the final budget and the actual results are related to an increase in other revenue from court awards received from seized assets.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Capital Assets

As of June 30, 2010, the organization's capital assets totaled \$233,737 net of accumulated depreciation of \$917,050. As of June 30, 2009, the organization's capital assets totaled \$200,194 net of accumulated depreciation of \$831,400.

Table 4 provides details of the net capital assets.

Table 4
Capital Assets and
Accumulated Depreciation
For the Year Ended June 30,

	2010	2009
Metro equipment	\$ 169,373	\$ 50,179
Seized equipment	431,305	431,305
HIDTA equipment	550,109	550,109
Total equipment	1,150,787	1,031,593
Accumulated depreciation	(917,050)	(831,400)
	\$ 233,737	\$ 200,193

During fiscal year 2010, Metro purchased assets that totaled \$119,194.

Economic Outlook

Changes in the general economic conditions of the City of Las Cruces and the surrounding area influence the economic condition of Metro. The regional area has not been immune to the effects of the national recession that began in December of 2007. The most recent economic indicators clearly show that the rate of employment growth has been adversely impacted along with the overall value of construction activity. While these impacts are a departure from the past, they have not been of the magnitude that other areas in the nation and state have experienced. The area has begun to record monthly job growth and the expectation is for the coming year to reflect a gradually improving economy.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Table 5
Las Cruces Economic Indicators

Item	Fiscal Year		Change	
	2010	2009	Number	Percent
Total Employment (MSA)*	68,008	68,908	(900)	-1.3%
Lodging Tax Receipts	\$1,717,810	\$1,663,616	\$54,194	3.3%
Gross Receipts Tax	\$70,701,556	\$70,169,219	\$532,337	0.8%
Single Family Building Permits	654	562	92	16.4%
Total Permit Valuation (Millions)	\$151	\$178	-\$27	-15.2%
Population Estimate**	93,452	90,792	2,660	2.9%

* Preliminary - Data for Metropolitan Statistical Area

** Census Bureau Estimates as of July 1

The region continues to benefit from quality of life elements, including climate, culture, higher education opportunities at the university campus, and growth in health care services. The City and region have also experienced growth in travel and tourism. Additionally, the military buildup in El Paso, Texas has had a positive impact on the region. These items enhance the economic recovery opportunities in the future.

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 Directors
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, 2010

	General Fund	Seized Assets Fund	Grant Fund	Total	Adjustments (Note 10)	Statement of Net Assets
Assets						
Current assets						
Cash and cash equivalents	\$ 74,166	\$ -	\$ -	\$ 74,166	\$ -	\$ 74,166
Restricted cash and cash equivalents	-	944,825	-	944,825	-	944,825
Receivables	5,636	-	-	5,636	-	5,636
Due from grant fund	113,730	-	-	113,730	(113,730)	-
Due from other governments	-	-	116,997	116,997	-	116,997
Total current assets	<u>193,532</u>	<u>944,825</u>	<u>116,997</u>	<u>1,255,354</u>	<u>(113,730)</u>	<u>1,141,624</u>
Capital assets - equipment, net	-	-	-	-	233,737	233,737
Total assets	<u>\$ 193,532</u>	<u>\$ 944,825</u>	<u>\$ 116,997</u>	<u>\$ 1,255,354</u>	<u>\$ 120,007</u>	<u>\$ 1,375,361</u>
Liabilities						
Current liabilities						
Due to Metro general fund	\$ -	\$ -	\$ 113,730	\$ 113,730	\$ (113,730)	\$ -
Accounts payable	9,405	8,687	508	18,600	-	18,600
Accrued payroll liabilities	8,419	-	2,759	11,178	-	11,178
Total current liabilities	<u>17,824</u>	<u>8,687</u>	<u>116,997</u>	<u>143,508</u>	<u>(113,730)</u>	<u>29,778</u>
Fund Balance/Net Assets						
Reserved for seized assets	-	936,138	-	936,138	(936,138)	-
Unreserved	175,708	-	-	175,708	(175,708)	-
Total fund balance	<u>175,708</u>	<u>936,138</u>	<u>-</u>	<u>1,111,846</u>	<u>(1,111,846)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 193,532</u>	<u>\$ 944,825</u>	<u>\$ 116,997</u>	<u>\$ 1,255,354</u>		
Net assets						
Invested in capital assets					233,737	233,737
Restricted for seized assets					936,138	936,138
Unrestricted					175,708	175,708
Total net assets					<u>233,737</u>	<u>1,345,583</u>
Total liabilities and net assets					<u>\$ 120,007</u>	<u>\$ 1,375,361</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, 2010

	General Fund	Seized Assets Fund	Grant Fund	Total	Adjustments (Note 10)	Statement of Activities
Revenues						
Operating grants	\$ 58,312	\$ -	\$ 828,261	\$ 886,573	\$ -	\$ 886,573
Charges for services	451,085	-	-	451,085	-	451,085
Interest	211	19,996	-	20,207	-	20,207
Other revenues	347	192,323	-	192,670	-	192,670
Total revenues	<u>509,955</u>	<u>212,319</u>	<u>828,261</u>	<u>1,550,535</u>	<u>-</u>	<u>1,550,535</u>
Expenditures/Expenses						
Current - law enforcement activities						
Personnel	217,458	-	159,881	377,339	-	377,339
Repairs and maintenance	72,872	10,550	-	83,422	-	83,422
Building rental	-	-	565,848	565,848	-	565,848
Services	115,166	-	62,342	177,508	-	177,508
Supplies	20,806	11,568	11,169	43,543	-	43,543
Insurance	101,333	3,264	-	104,597	-	104,597
Other	4,302	-	29,021	33,323	-	33,323
Depreciation	-	-	-	-	85,650	85,650
Capital outlay	-	119,194	-	119,194	(119,194)	-
Total expenditures/expenses	<u>531,937</u>	<u>144,576</u>	<u>828,261</u>	<u>1,504,774</u>	<u>(33,544)</u>	<u>1,471,230</u>
Revenues over (under) expenditures/ expenses	(21,982)	67,743	-	45,761	33,544	79,305
Fund balances/net assets, beginning 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>
Fund balances/net assets, end of the year	<u>\$ 175,708</u>	<u>\$ 936,138</u>	<u>\$ -</u>	<u>\$ 1,111,846</u>	<u>\$ 233,737</u>	<u>\$ 1,345,583</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, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
Revenues				
Charges for services	\$ 451,086	\$ 451,086	\$ 451,085	\$ (1)
Operating grants	20,000	154,500	58,312	(96,188)
Other revenue	-	-	347	347
Interest	-	-	211	211
Total revenues	<u>471,086</u>	<u>605,586</u>	<u>509,955</u>	<u>(95,631)</u>
Expenditures				
Current - law enforcement activities				
Personnel	150,760	281,960	217,458	64,502
Repairs and maintenance	67,500	84,400	72,872	11,528
Services	116,561	119,539	115,166	4,373
Supplies	17,000	23,542	20,806	2,736
Insurance	88,114	101,414	101,333	81
Other	11,150	4,730	4,302	428
Total expenditures	<u>451,085</u>	<u>615,585</u>	<u>531,937</u>	<u>83,648</u>
Change in fund balance	20,001	(9,999)	(21,982)	(11,983)
Fund balance, beginning of the year	<u>197,690</u>	<u>197,690</u>	<u>197,690</u>	<u>11,618</u>
Fund balance , end of the year	<u>\$ 217,691</u>	<u>\$ 187,691</u>	<u>\$ 175,708</u>	<u>\$ (365)</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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Interest	\$ -	\$ -	\$ 19,996	\$ 19,996
Other revenues	-	-	192,323	192,323
Total revenues	-	-	212,319	212,319
Expenditures				
Current - law enforcement activities				
Repairs and maintenance	-	4,300	10,550	(6,250)
Supplies	-	-	11,568	(11,568)
Insurance	-	-	3,264	(3,264)
Capital outlay	-	150,000	119,194	30,806
Total expenditures	-	154,300	144,576	9,724
Change in fund balance	-	(154,300)	67,743	222,043
Fund balance, beginning of the year	868,395	868,395	868,395	-
Fund balance, end of the year	868,395	714,095	936,138	222,043

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, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
Revenues				
Operating grants	\$ 813,779	\$ 846,554	\$ 828,261	\$ (18,293)
Total revenues	<u>813,779</u>	<u>846,554</u>	<u>828,261</u>	<u>(18,293)</u>
Expenditures				
Current - law enforcement activities				
Personnel	147,019	172,655	159,881	12,774
Repairs and maintenance	1,200	-	-	-
Building rental	565,848	565,848	565,848	-
Services	65,096	65,196	62,342	2,854
Supplies	19,316	14,133	11,169	2,964
Other	15,300	28,722	29,021	(299)
Total expenditures	<u>813,779</u>	<u>846,554</u>	<u>828,261</u>	<u>18,293</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, 2010

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. 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. Metro has also elected to apply FASB Statements and Interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Organization-Wide Financial Statements—The organization-wide financial statements consist of the statement of net assets and statement of activities. These financial statements are reported using the economic resources measurement focus and 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.

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 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.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2010

- ♦ 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. Amounts are immediately available to Metro and are therefore considered cash equivalents.

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 their estimated useful lives. 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.

Nonexchange Transactions

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.

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, 2010

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. Metro's share of the City of Las Cruces cash and investment pool is immediately available for spending and is therefore considered a cash equivalent.

Cash and cash equivalents consist of the following at June 30, 2010:

City of Las Cruces cash and investment pool	\$ 923,470
Metro Narcotics Agency money market account and petty cash	<u>95,521</u>
Total cash and cash equivalents	<u><u>\$ 1,018,991</u></u>

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

Cash and cash equivalents	\$ 74,166
Restricted cash and cash equivalents	<u>944,825</u>
Total	<u><u>\$ 1,018,991</u></u>

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

Carrying amount of bank deposits	\$ 14,981,498
Investments at fair value	90,359,170
Accrued interest	<u>440,152</u>
Total cash and investment pool	<u><u>\$ 105,780,820</u></u>

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2010

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 100% 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, 2010, the City’s bank deposits, totaling \$20,320,542, was insured by federal deposit insurance 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.

As of June 30, 2010, the City’s investment pool had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (Yrs)</u>
U.S. agency coupon bonds	<u>\$ 90,359,170</u>	0.53

Interest Rate Risk. The City manages exposure to declines in fair values by managing exposure to interest rate risk by purchasing investments with increasing coupon rates 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. The investment pool includes step-up coupon securities that total \$90,359,170 issued by U.S. government agencies that are callable by the issuer under certain circumstances. The Telshor Facility fund and the Water and Wastewater funds have \$11,093,790 and \$3,310,591, respectively, of similar step-up agency securities. For purposes of calculating weighted average maturity, the City assumes callable securities will be called at the first call option, based on their interest rate, current market interest rate, and the City’s recent experience with these securities being called at the first call date.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2010

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, 2010, the City's investments in coupon bonds of U.S. agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The City's money market fund investments were rated AAAM by Standard & Poor's and/or Aaa by Moody's. The external investment pools of the NM State Investment Council are not rated.

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, 2010, all of the City's securities are held in either the street name or by a third-party financial institution in the City's name.

Concentration of Credit Risk. The City's investment policy places no limit on the amount the City may invest in any one issuer. As of June 30, 2010, 46% of the City's investment pool was invested in Federal Home Loan Mortgage Corporation (FHLMC) securities and 35% was invested in Fannie Mae (FNMA) securities. Of the Telshor Facility Fund portfolio, 47% was in FHLMC and 5% was in FNMA. Of the Water and Wastewater Funds portfolio, 9% was in FHLMC and 11% was in 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, 2010, the amount receivable from this funding agency was \$116,997.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2010

4) Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balances June 30, 2009	Additions	Balances June 30, 2010
Equipment	\$ 1,031,593	\$ 119,194	\$ 1,150,787
Less accumulated depreciation	<u>(831,400)</u>	<u>(85,650)</u>	<u>(917,050)</u>
Capital assets, net	<u>\$ 200,193</u>	<u>\$ 33,544</u>	<u>\$ 233,737</u>

Depreciation expense for the year ended June 30, 2010 of \$85,650 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;

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2010

- ◆ 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.

The City and the County agree to fund Metro’s operating expenses proportionate to their respective share of the task force, which is the total number of law enforcement agencies assigned to Metro for each fiscal year. The number of participating agencies in the task force can vary from year to year. During fiscal year 2010, operating contributions from the City and the County were \$225,543 each.

7) Employee Benefit Plans

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, 2010

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, 2010

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		
June 30, 2010	\$ 7,756	\$ 8,633	\$ 72,824	100%
June 30, 2009	5,987	8,487	56,216	100%
June 30, 2008	3,659	7,753	51,176	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.

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

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, 2010

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 employer's required contributions, which were as follows:

2010	\$	738
2009		728
2008		673

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, 2010

8) Commitments

Metro leases facilities under an operating lease, which includes substantially all utilities and maintenance costs. The lease expires in 2015; however, 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 the operating lease agreement.

Year ended June 30,	
2011	\$ 580,185
2012	598,822
2013	617,459
2014	636,096
2015	<u>654,733</u>
	<u>\$ 3,087,295</u>

9) Interfund Balances

At June 30, 2010, the grant fund owed \$113,730 to the general fund to pay for certain operational costs of drug intervention activities. These amounts are expected to be repaid within a year.

10) Adjustments

Fund balances of Metro's governmental funds of \$1,111,846 differ from total net assets of \$1,345,583 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, 2010

The following is a summary of the differences:

Fund balance	\$ 1,111,846
Capital assets are not financial resources and, therefore, are not reported in the funds	<u>233,737</u>
Net assets	<u><u>\$ 1,345,583</u></u>
Net change in fund balances	\$ 45,761
Capital outlay	119,194
Depreciation expense	<u>(85,650)</u>
Net change in net assets	<u><u>\$ 79,305</u></u>

11) Related Party Transactions

Metro receives funding from members of the joint powers agreement. During the year ended June 30, 2010, Metro received \$225,543 from both the City of Las Cruces and Dona Ana County.

Supplementary Information

Metro Narcotics Agency
Schedule of Pledged Collateral
June 30, 2010

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

<u>Institution/Security</u>	<u>CUSIP #</u>	<u>Maturity Date</u>	<u>Safe Keeping Location</u>	<u>Market Value</u>
Wells Fargo Bank, NA			Wells Fargo Bank	
FED NATL MTG ASSN POOL #256327	31371MVU8	7/1/2036		\$ 12,098,650
FED NATL MTG ASSN POOL #849021	31408EG63	1/1/2036		10,962,729
FED NATL MTG ASSN POOL #995018	31416BK72	6/1/2038		14,507,090
				<u>\$ 37,568,469</u>

Summary of Collateralization

Wells Fargo Bank		
Ending bank balance		\$ 20,320,542
Less: FDIC insurance		(250,000)
Total uninsured public funds		<u>\$ 20,070,542</u>
Pledged collateral held by the pledging bank's trust department in the City's name		\$ 37,568,469
100% collateral requirement		<u>20,070,542</u>
Pledged collateral in excess of requirement		<u>\$ 17,497,927</u>
Uninsured and uncollateralized		<u>\$ -</u>

Metro Narcotics Agency
Schedule of Deposit Accounts and Investments
June 30, 2010

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	Type of Account	Pooled Cash & Investments	Metro Narcotics Accounts	Total Reconciled Balance	On Deposit 6/30/2010
Deposit Accounts					
<i>Wells Fargo Bank</i>					
Community Development	Checking	\$ -	\$ -	\$ -	\$ 197,752
Community Development Home Rehab	Savings	-	-	-	40,739
Community Development Home Program	Savings	-	-	-	1,270
Metro Narcotics Agency	Savings	-	95,421	95,421	95,421
Treasury Fund - Operating	Checking	19,863,617	-	19,863,617	19,951,196
Payroll Direct Deposit Account	Checking	(27,647)	-	(27,647)	-
Accounts Payable	Checking	(2,240,671)	-	(2,240,671)	-
Electronic	Checking	(3,537,060)	-	(3,537,060)	-
Credit Card	Checking	858	-	858	-
On Demand	Checking	34,164	-	34,164	34,164
Rio Grande Natural Gas Assoc Revenue	Checking	(358,107)	-	(358,107)	-
Depository	Checking	1,246,344	-	1,246,344	-
Total deposit accounts		<u>14,981,498</u>	<u>95,421</u>	<u>15,076,919</u>	<u>\$ 20,320,542</u>
Investments					
<i>Wells Fargo Brokerage Services, LLC</i>					
FNMA	Investment	10,048,450	-	10,048,450	
<i>First Tennessee</i>					
FHLB	Investment	2,005,000	-	2,005,000	
FHLMC	Investment	33,278,450	-	33,278,450	
FNMA	Investment	20,911,410	-	20,911,410	
<i>Morgan Keegan</i>					
FHLMC	Investment	15,071,100	-	15,071,100	
FNMA	Investment	9,044,760	-	9,044,760	
<i>State Treasurer New Mexigrow LGIP</i>					
New Mexico State Treasurer LGIP	Investment	-	-	-	
Total investments		<u>90,359,170</u>	<u>-</u>	<u>90,359,170</u>	
Total deposits and investments		105,340,668	95,421	105,436,089	
<i>Other Cash:</i>					
Petty Cash & Change Funds		-	100	100	
<i>Accrued Interest Receivable</i>					
Accrued Interest – Pooled Investments		<u>440,152</u>	<u>-</u>	<u>440,152</u>	
Total cash and investments		105,780,820	95,521	105,876,341	
Less balances in City of Las Cruces funds		<u>104,857,350</u>	<u>-</u>	<u>104,857,350</u>	
Metro Narcotics cash and cash equivalents		<u>\$ 923,470</u>	<u>\$ 95,521</u>	<u>\$ 1,018,991</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, 2010, which collectively comprise Metro's basic financial statements and have issued our report there on dated November 17, 2010. 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 Metro's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Metro's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 instance of noncompliance that is required to be reported under *Government Auditing Standards*.

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 17, 2010

Metro Narcotics Agency
Schedule of Findings and Responses
For the Year Ended June 30, 2010

There were no audit findings for the fiscal year ended June 30, 2010.

Metro Narcotics Agency
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2010

SA 09-01 — Actual expenditures exceeded budgeted expenditures.

Current Status: The finding was resolved in 2010.

Metro Narcotics Agency
Other Disclosures
For the Year Ended June 30, 2010

Exit Conference

An exit conference was conducted on November 15, 2010, in a closed meeting of the Board of Directors pursuant to *Section 12-6-5 NMSA, 1978* with the following individuals in attendance:

Metro

Richard Williams
Yolanda Zubia

Vice Chairman
Metro Office Assistant

City of Las Cruces (Fiscal Agent)

Pat Degman, CGFM
Audrey Evins, CPA
Carlos Lobato, CIA, CISA
Melissa Nelson
Karin DeVogel

Interim Finance Director
Interim Comptroller
Interim Internal Audit Manager
Accounting Supervisor
Interim Accounting Supervisor

REDW_{LLC}

Bruce Bleakman, CPA
Michele Ziegler, CPA (by phone)

Principal
Manager

Financial Statement Preparation

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