

Report of Independent Auditors and Financial
Statements with Supplementary Information for

Metro Narcotics Agency

June 30, 2012

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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Metro Narcotics Agency

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Metro Narcotics Agency
June 30, 2012

OFFICIAL ROSTER

The Board of Directors, none of whom are employed by Metro Narcotics Agency, for the year ended June 30, 2012, are:

Todd Garrison	Chairman
Richard Williams	Vice Chairman
Ken Miyagishima	Board Member
Robert Garza	Board Member
Brian Haines	Board Member
Dolores Saldana-Caviness	Board Member
Tommy Mora	Board Member
Amy Orlando	Board Member

REPORT OF INDEPENDENT AUDITORS

Mr. Hector H. 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, including the budgetary comparisons, of the Metro Narcotics Agency (METRO) as of and for the year ended June 30, 2012, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of METRO's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Metro Narcotics Agency as of June 30, 2012, and the respective changes in financial position and budgetary comparisons 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 14, 2012, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Metro Narcotics Agency's basic financial statements. The accompanying Schedule of Pledged Collateral and Schedule of Deposit Accounts and Investments on pages 29 and 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Pledged Collateral and Schedule of Deposit Accounts and Investments are fairly stated in all material respects in relation to the financial statements as a whole.

Moss Adams LLP

Albuquerque, New Mexico
November 14, 2012

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2012

This 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, 2012. 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.

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).

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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—In 2012, assets decreased to \$1,089,232 from \$1,335,697 in 2011.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Table 1 summarizes the net assets of its governmental activities.

Table 1
Net Assets
As of June 30,

	<u>2012</u>	<u>2011</u>
Assets		
Current assets	\$ 1,067,518	\$ 1,192,741
Capital assets, net	71,938	171,420
Total assets	<u>\$ 1,139,456</u>	<u>\$ 1,364,161</u>
Liabilities		
Current and other liabilities	50,224	28,464
Total liabilities	<u>50,224</u>	<u>28,464</u>
Net Assets		
Invested in capital assets	\$ 71,938	\$ 171,420
Restricted for seized assets	822,884	972,261
Unrestricted	194,410	192,016
Total net assets	<u>1,089,232</u>	<u>1,335,697</u>
Total liabilities and net assets	<u>\$ 1,139,456</u>	<u>\$ 1,364,161</u>

Changes in Net Assets—Total revenues for the year ended June 30, 2012, were \$1,326,543 compared with expenses of \$1,573,008. Total revenues for the year ended June 30, 2011, were \$1,564,737 compared with expenses of \$1,574,623.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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

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

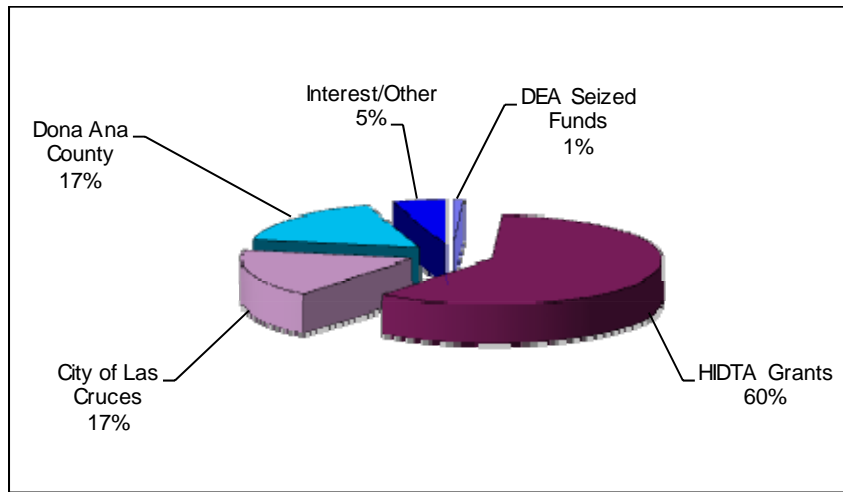
	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues		
Operating grants	\$ 833,090	\$ 925,064
Charges for services	451,086	451,086
General revenue		
Interest	32,258	3,273
Other revenues	10,109	185,314
Total revenue	<u>1,326,543</u>	<u>1,564,737</u>
Expenses – law enforcement	<u>1,573,008</u>	<u>1,574,623</u>
Change in net assets	(246,465)	(9,886)
Net assets, beginning of year	<u>1,335,697</u>	<u>1,345,583</u>
Net assets, end of year	<u><u>\$ 1,089,232</u></u>	<u><u>\$ 1,335,697</u></u>

Grant Activities—Fiscal year 2012 grants included an \$810,191 grant for facility rental and other operating costs. A balance of \$53,661 will be available for use in fiscal year 2013 from the current year grant. A balance from a fiscal year 2011 grant of \$47,407 was expended in fiscal year 2012.

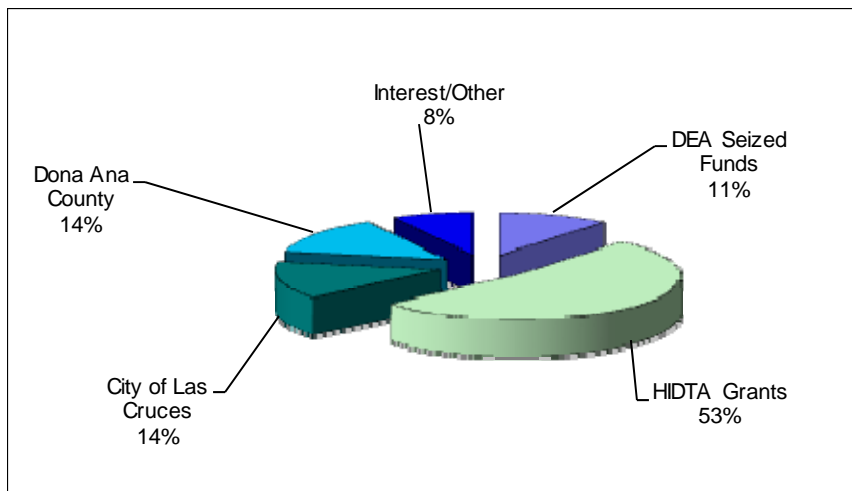
**Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Charts 1 and 2 show the revenues by source for fiscal years 2012 and 2011, respectively.

**Chart 1
2012 Metro Revenues by Source**



**Chart 2
2011 Metro Revenues by Source**



Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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, 2012.

Table 3
Budgetary Comparison – Aggregate of All Funds
For the Year Ended June 30, 2012

	Budget		Actual	Variance	Percent Variance
	Original	Final			
Revenues					
Operating grants	\$ 851,583	\$ 888,961	\$ 833,090	\$ (55,871)	-6%
Charges for services	451,086	451,086	451,086	-	0%
Interest	-	-	32,258	32,258	0%
Other	-	-	10,109	10,109	0%
Total revenue	<u>1,302,669</u>	<u>1,340,047</u>	<u>1,326,543</u>	<u>(13,504)</u>	-1%
Expenditures					
Law enforcement	1,302,668	1,512,546	1,473,526	39,020	3%
Capital outlay	-	75,000	-	75,000	100%
Total expenditures	<u>1,302,668</u>	<u>1,587,546</u>	<u>1,473,526</u>	<u>114,020</u>	7%
Revenues over (under) expenditures	<u>\$ 1</u>	<u>\$ (247,499)</u>	<u>\$ (146,983)</u>	<u>\$ 100,516</u>	41%

In fiscal year 2012, the increase from the original revenue budget to the final revenue budget of \$37,378 is a result of increased grant funding during the fiscal year. The differences between the final budget and the actual results are related to a decrease in the actual grant funding at the end of the fiscal year. Interest income actuals were higher than budget due to interest earned and the fair market value adjustment earned by investments that participate in the cash pool. Actual revenues decreased by approximately 1% over the final budget in the amount of (\$13,504).

The increase from the original expenditure budget and the final expenditure budget in fiscal year 2012 is a result of increased seized asset spending during the fiscal year. The differences between the final budget and the actual results are due to a decrease in certain operations by Metro. Approximately \$53,000 was budgeted for minor equipment in the seized asset fund but not purchased in fiscal year 2012. These items contributed to total expenditures at 7% less than budget and a cost savings of \$114,020.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Capital Assets

As of June 30, 2012, the organization's capital assets totaled \$71,938 net of accumulated depreciation of \$1,099,362. As of June 30, 2011, the organization's capital assets totaled \$171,420 net of accumulated depreciation of \$1,020,583.

Table 4 provides details of the net capital assets.

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

	2012	2011
Metro equipment	\$ 226,584	\$ 226,584
Seized equipment	415,310	415,310
HIDTA equipment	529,406	550,109
Total equipment	1,171,300	1,192,003
Accumulated depreciation	(1,099,362)	(1,020,583)
	\$ 71,938	\$ 171,420

There were no capital assets additions for Metro in fiscal year 2012. Fully depreciated equipment was transferred to the Las Cruces Police Department resulting in a decrease in total cost of equipment of in the amount of \$20,703.

Economic Outlook

Changes in the general economic conditions of the City of Las Cruces and the surrounding area influence the economic condition of Metro. With some notable exceptions, the regional area has experienced the same lack luster recovery from the "Great Recession". The economic outlook calls for slow growth in most indicators. One exception is new residential construction which has yet to experience a turn around. Total construction valuation is anticipated to show little change in the coming fiscal year with residential gains being partially offset by a mild recovery in commercial activity.

The most recent economic indicators show that the rate of employment growth has made a positive turn and increased slightly. A key to achieving the rate of employment forecast for the region is the relationship between private and government sectors. The recovery to date has been concentrated in private jobs with public jobs actually declining in recent years. The outlook anticipates all new jobs being created in the private sector while the public sector remains stagnant.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2012

The region continues to benefit from quality of life elements, including climate, culture, higher education opportunities at the university campus, advances in alternative energy, and growth in health care services. Population migration continues to be hampered by the national housing market. The inability of people to sell homes in other parts of the country and relocate or retire to Las Cruces has yet to abate. Residential units being built have become smaller which reflects the residential market adjusting to homes that are affordable based on local labor market conditions. As the economy continues to make slow progress, these items will 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 Chair 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, 2012

	General Fund	Seized Assets Fund	Grant Fund	Total	Adjustments (Note 11)	Statement of Net Assets
Assets						
Current assets						
Cash and cash equivalents	\$ 130,382	\$ -	\$ -	\$ 130,382	\$ -	\$ 130,382
Restricted cash and cash equivalents	-	848,456	-	848,456	-	848,456
Receivables	7,190	-	-	7,190	-	7,190
Due from grant fund	67,965	-	-	67,965	(67,965)	-
Due from other governments	-	-	81,490	81,490	-	81,490
Total current assets	<u>205,537</u>	<u>848,456</u>	<u>81,490</u>	<u>1,135,483</u>	<u>(67,965)</u>	<u>1,067,518</u>
Capital assets - equipment, net	-	-	-	-	71,938	71,938
Total assets	<u>\$ 205,537</u>	<u>\$ 848,456</u>	<u>\$ 81,490</u>	<u>\$ 1,135,483</u>	<u>\$ 3,973</u>	<u>\$ 1,139,456</u>
Liabilities						
Current liabilities						
Due to Metro general fund	\$ -	\$ -	\$ 67,965	\$ 67,965	\$ (67,965)	\$ -
Accounts payable	5,359	25,572	7,226	38,157	-	38,157
Accrued payroll liabilities	5,768	-	6,299	12,067	-	12,067
Total current liabilities	<u>11,127</u>	<u>25,572</u>	<u>81,490</u>	<u>118,189</u>	<u>(67,965)</u>	<u>50,224</u>
Fund Balance/Net Assets						
Restricted for seized assets	-	822,884	-	822,884	(822,884)	-
Unassigned	194,410	-	-	194,410	(194,410)	-
Total fund balance	<u>194,410</u>	<u>822,884</u>	<u>-</u>	<u>1,017,294</u>	<u>(1,017,294)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 205,537</u>	<u>\$ 848,456</u>	<u>\$ 81,490</u>	<u>\$ 1,135,483</u>		
Net assets						
Invested in capital assets					71,938	71,938
Restricted for seized assets					822,884	822,884
Unrestricted					194,410	194,410
Total net assets					<u>71,938</u>	<u>1,089,232</u>
Total liabilities and net assets					<u>\$ 3,973</u>	<u>\$ 1,139,456</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 Balance
For the Year Ended June 30, 2012

	General Fund	Seized Assets Fund	Grant Fund	Total	Adjustments (Note 11)	Statement of Net Assets
Revenues						
Program						
Operating grants	\$ 29,153	\$ -	\$ 803,937	\$ 833,090	\$ -	\$ 833,090
Charges for services	451,086	-	-	451,086	-	451,086
General						
Interest	(7,475)	39,733	-	32,258	-	32,258
Other revenues	4,187	5,922	-	10,109	-	10,109
Total revenues	<u>476,951</u>	<u>45,655</u>	<u>803,937</u>	<u>1,326,543</u>	<u>-</u>	<u>1,326,543</u>
Expenditures/Expenses						
Current - law enforcement activities						
Personnel	156,564	51,743	119,881	328,188	-	328,188
Repairs and maintenance	97,759	10,242	-	108,001	-	108,001
Building rental	-	-	603,122	603,122	-	603,122
Services	101,553	74,998	57,657	234,208	-	234,208
Supplies	12,948	55,032	11,822	79,802	-	79,802
Insurance	95,401	-	-	95,401	-	95,401
Other	10,332	3,017	11,455	24,804	-	24,804
Depreciation	-	-	-	-	99,482	99,482
Capital outlay	-	-	-	-	-	-
Total expenditures/expenses	<u>474,557</u>	<u>195,032</u>	<u>803,937</u>	<u>1,473,526</u>	<u>99,482</u>	<u>1,573,008</u>
Revenues over (under) expenditures/ expenses	2,394	(149,377)	-	(146,983)	(99,482)	(246,465)
Fund balances/net assets, beginning of the year	<u>192,016</u>	<u>972,261</u>	<u>-</u>	<u>1,164,277</u>	<u>171,420</u>	<u>1,335,697</u>
Fund balances/net assets, end of the year	<u>\$ 194,410</u>	<u>\$ 822,884</u>	<u>\$ -</u>	<u>\$1,017,294</u>	<u>\$ 71,938</u>	<u>\$1,089,232</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Charges for services	\$ 451,086	\$ 451,086	\$ 451,086	\$ -
Operating grants	-	26,021	29,153	3,132
Other revenue	-	-	4,187	4,187
Interest	-	-	(7,475)	(7,475)
Total revenues	<u>451,086</u>	<u>477,107</u>	<u>476,951</u>	<u>(156)</u>
Expenditures				
Current - law enforcement activities				
Personnel	150,760	157,208	156,564	644
Repairs and maintenance	66,550	93,104	97,759	(4,655)
Services	106,911	102,997	101,553	1,444
Supplies	16,000	14,327	12,948	1,379
Insurance	103,114	98,093	95,401	2,692
Other	7,750	11,377	10,332	1,045
Total expenditures	<u>451,085</u>	<u>477,106</u>	<u>474,557</u>	<u>2,549</u>
Change in fund balance	1	1	2,394	2,393
Fund balance, beginning of the year	<u>192,016</u>	<u>192,016</u>	<u>192,016</u>	<u>-</u>
Fund balance, end of the year	<u>\$ 192,017</u>	<u>\$ 192,017</u>	<u>\$ 194,410</u>	<u>\$ 2,393</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Interest	\$ -	\$ -	\$ 39,733	\$ 39,733
Other revenues	-	-	5,922	5,922
Total revenues	-	-	45,655	45,655
Expenditures				
Current - law enforcement activities				
Personnel	-	51,314	51,743	(429)
Repairs and maintenance	-	10,243	10,242	1
Services	-	-	74,998	(74,998)
Supplies	-	107,926	55,032	52,894
Insurance	-	-	-	-
Other	-	3,017	3,017	-
Capital outlay	-	75,000	-	75,000
Total expenditures	-	247,500	195,032	52,468
Change in fund balance	-	(247,500)	(149,377)	98,123
Fund balance, beginning of the year	972,261	972,261	972,261	-
Fund balance, end of the year	\$ 972,261	\$ 724,761	\$ 822,884	\$ 98,123

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Operating grants	\$ 851,583	\$ 862,940	\$ 803,937	\$ (59,003)
Total revenues	<u>851,583</u>	<u>862,940</u>	<u>803,937</u>	<u>(59,003)</u>
Expenditures				
Current - law enforcement activities				
Personnel	135,718	133,923	119,881	14,042
Repairs and maintenance	1,260	-	-	-
Building rental	621,759	640,396	603,122	37,274
Services	50,956	59,446	57,657	1,789
Supplies	29,176	17,381	11,822	5,559
Other	12,714	11,794	11,455	339
Total expenditures	<u>851,583</u>	<u>862,940</u>	<u>803,937</u>	<u>59,003</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, 2012

1) Summary of Significant Accounting Policies

Reporting Entity

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 an eight-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 responsibility for the financial statements rests with the Metro Board. Metro does not have any component units. The City of Las Cruces is the fiscal agent for Metro and accounts for its resources as agency funds.

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 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 Narcotics Agency
Notes to Financial Statements
June 30, 2012

1) Summary of Significant Accounting Policies (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.
- ◆ *Special Revenue Fund (Seized Assets Fund)*—The seized assets fund accounts for the proceeds of seized assets received from other law enforcement agencies. In accordance with terms of the Metro joint powers agreement, proceeds received from the sale of seized property are restricted for uses allowed under the Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies (the “Guide”).
- ◆ *Grant Fund*—The grant fund accounts for the proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Federal and state grants and contracts are accounted for in this fund.

Cash and Cash Equivalents

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

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2012

1) Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Budgets

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

New Accounting Pronouncements

The following accounting pronouncements have been recently issued, but not yet adopted by Metro. Management anticipates that, upon adoption by Metro, none of these statements will have a significant impact on the Agency's financial position or results of operations. Pronouncements that are not applicable to the Agency have been omitted.

- ◆ Statement No. 62: Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.
- ◆ Cash Statement No. 65: Items Previously Reported as Assets and Liabilities.
- ◆ Statement No. 66: Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62.
- ◆ Statement No. 67: Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25.
- ◆ Statement No. 68: Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2012

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, 2012:

Equity in City of Las Cruces cash and investment pool	\$ 883,243
Metro Narcotics Agency money market account and petty cash	<u>95,595</u>
Total cash and investments	<u><u>\$ 978,838</u></u>

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

Cash and cash equivalents	\$ 130,382
Restricted cash and investments	<u>848,456</u>
Total	<u><u>\$ 978,838</u></u>

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

Carrying amount of bank deposits	\$ 10,191,172
Investments at fair value	128,837,526
Accrued interest	<u>611,014</u>
Total cash and investment pool	<u><u>\$ 139,639,712</u></u>

Bank Balance of Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment ordinance requires collateralization of 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, 2012, the City's deposits, totaling \$27,653,926 was insured by FDIC or collateralized by securities held in trust by a third-party bank for the depository bank in the City's name and thus was not exposed to custodial credit risk.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2012

2) Cash and Cash Equivalents (continued)

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, 2012, the City's investment pool had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Avg Maturity (Yrs)</u>
U.S. agency coupon bonds	\$ 119,173,345	0.70
Repurchase agreement	9,664,181	0.00
Total Pooled Investments	<u><u>\$ 128,837,526</u></u>	

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment pool includes step-up coupon securities that total \$119,173,345, issued by U.S. government agencies that are callable by the issuer under certain circumstances. 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.

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, 2012, the City's investments in coupon bonds of U.S. agencies were rated AA+ 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, 2012, 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.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2012

2) Cash and Cash Equivalents (continued)

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, 2012, 20% of the City's investment pool was in Federal Home Loan Mortgage Corporation (FHLMC), 66% in Fannie Mae (FNMA) and 7% in Federal Home Loan Bank (FHLB).

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, 2012, the amount receivable from this funding agency was \$81,491.

4) Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balances June 30, 2011	Additions	Transfers	Balances June 30, 2012
Equipment	\$ 1,192,003	\$ -	\$ (20,703)	\$ 1,171,300
Less accumulated depreciation	(1,020,583)	(99,482)	20,703	(1,099,362)
Capital assets, net	<u>\$ 171,420</u>	<u>\$ (99,482)</u>	<u>\$ -</u>	<u>\$ 71,938</u>

Depreciation expense for the year ended June 30, 2012, of \$99,482 was charged to the law enforcement activities function.

During the year, Metro spent \$74,998 on the purchase of two vehicles from the Seized Assets Fund. These two vehicles are for the Dona Ana County Sheriff's Office for law enforcement use only. This expenditure is not reflected in the Metro assets.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2012

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 prior three years.

6) Joint Powers Agreement

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

- ◆ To perform and document through covert and overt investigations of violations of the New Mexico State Statutes and United States Code relating to narcotics and drug related offenses;
- ◆ To arrest, and to assist in the prosecution of, persons accused of drug and drug-related offenses, consistent with the United States Constitution, and other federal and state law;
- ◆ To develop and confidentially maintain intelligence data regarding criminal activity in Las Cruces-Dona Ana County area concerning drug and drug-related activities and offenses;
- ◆ 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 agents assigned to Metro for each fiscal year. The number of participating agencies in the task force can vary from year to year.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2012

7) Pension Plan – Public Employees Retirement Association

Plan Description

Substantially all of Metro's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute as follows police 16.30% and all other employees 7.15% of their gross salary. Metro is required to contribute as follows police 18.50% and all other employees 15.15% of the gross covered salary. The contribution requirements of plan members and Metro are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of legislature. Metro's contribution to PERA for the fiscal years ending June 30, 2012, 2011, and 2010 were \$6,323, \$10,442, and \$8,633, respectively, which equal the amount of the required contributions for each fiscal year.

8) Post-Employee Benefits – State Retiree Health Care Plan

Plan Description

Metro contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined postemployment health care plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the health care plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2012

8) Post-Employee Benefits – State 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 RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment health care plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for health care benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate scheduled for the medical plus basic life plan, plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute .917% of their salary. In fiscal year ending June 30, 2013 the contribution rates for employees and employers will rise as follows:

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2012

8) Post-Employee Benefits – State Retiree Health Care Plan (continued)

(1) For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

(2) For employees who are member of an enhanced retirement plan, during the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 2.292% of each participating employee’s annual salary, and each participating employee was required to contribute 1.146% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for both employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.500%	1.250%

Also, employers joining the program after January 1, 1998, are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agree-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee, and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contribution can be changed by the New Mexico State Legislature.

Metro’s contributions to the RHCA for the years ended June 30, 2012, 2011, and 2010 were \$719, \$1,147, and \$738, respectively, which equal the required contributions for each year.

9) 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.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2012

9) Commitments (continued)

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

Year ended June 30,	
2013	\$ 617,459
2014	636,096
2015	654,733
	<u>\$ 1,908,288</u>

10) Interfund Balances

At June 30, 2012, the grant fund owed \$67,965 to the general fund to pay for certain operational costs of drug intervention activities. These amounts are expected to be repaid within a year.

11) Adjustments

Fund balances of Metro's governmental funds of \$1,017,294 differ from total net assets of \$1,089,232 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 depreciation expense is reported on the statement of activities.

The following is a summary of the differences:

Fund balance	\$ 1,017,294
Capital assets are not financial resources and, therefore, are not reported in the funds	71,938
Net assets	<u>\$ 1,089,232</u>
Net change in fund balances	\$ (146,983)
Capital outlay	-
Depreciation expense	(99,482)
Net change in net assets	<u>\$ (246,465)</u>

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2012

12) Related Party Transactions

Metro receives funding from members of the joint powers agreement. During the year ended June 30, 2012, Metro received \$225,543 from both the City of Las Cruces and Dona Ana County.

13) Fund Balance Policy

Prior to fiscal year 2012, Metro reported the governmental fund balances as Reserved and Unreserved. Metro reports the governmental fund balances in two categories, which include:

1. Restricted fund balance—includes amounts that can be spent only for the specific purposes imposed by creditors, grantors, contributors, or laws and regulations of other governments. An example is federal grants.
2. Unassigned fund balance—is the residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Unassigned Fund Balance is only reported in the General Fund.

On May 18, 2011, the Metro board adopted a fund balance policy to establish a minimum fund balance reserve of 1/12 of budgeted expenditures effective fiscal year 2012. Metro's budgeted expenditures for fiscal year 2012 were \$477,106 and 1/12 of this amount is \$39,758. Metro's fund balance at June 30, 2012 is \$194,410.

Supplementary Information

Metro Narcotics Agency
Schedule of Pledged Collateral
June 30, 2012

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.

Institution/Security	CUSIP #	Maturity Date	Safe Keeping Location	Market Value
Wells Fargo Bank, NA			BNY Mellon	
FMAC FGPF 5.000% 10/01/2038	3128M6VZ8	10/01/2038		\$ 66,597
FNMA FNMS 4.000% 12/01/2040	3138A1AG6	12/01/2040		87,240
FNMA FNMS 3.000% 12/01/2025	3138A1G62	12/01/2025		4,223
FNMA FNMS 3.500% 12/01/2025	3138A2CF4	12/01/2025		12,036
FNMA FNMS 4.000% 01/01/2041	31409DUS0	01/01/2041		39,277
FNMA FNMS 4.000% 01/01/2041	3138A2WW5	01/01/2041		46,457
FNMA FNMS 3.500% 01/01/2041	3138A36S1	01/01/2041		4,741
FNMA FNMS 4.000% 01/01/2041	3138A3S65	01/01/2041		9,461
FNMA FNMS 4.000% 01/01/2041	3138A4XY6	01/01/2041		916,732
FNMA FNMS 4.500% 03/01/2041	3138A74F2	03/01/2041		208,072
FNMA FNMS 4.000% 03/01/2041	3138A8RD0	03/01/2041		33,006
FNMA FNMS 4.500% 02/01/2041	3138A8XX9	02/01/2041		139,848
FNMA FNMS 4.500% 04/01/2041	3138ABZX0	04/01/2041		4,321
FNMA FNMS 3.000% 11/01/2026	31418ABC1	11/01/2026		13,752,247
FNMA FNMS 3.500% 03/01/2042	31418AD96	03/01/2042		462,330
				<u>\$ 15,786,588</u>

Summary of Collateralization

Wells Fargo Bank

Ending bank balance	\$ 27,836,926
Less: FDIC insurance	<u>(12,633,362)</u>
Total uninsured public funds	<u>\$ 15,203,564</u>
Pledged collateral held by the pledging bank's trust department in the City's name	\$ 15,786,588
100% collateral requirement	<u>15,203,564</u>
Pledged collateral in excess of requirement	<u>\$ 583,024</u>
Uninsured and uncollateralized	<u>\$ -</u>

Metro Narcotics Agency

Schedule of Deposit Accounts and Investments

June 30, 2012

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 6/30/2012
DEPOSIT ACCOUNTS					
<i>Wells Fargo Bank</i>					
Community Development	Checking	\$ -	\$ -	\$ -	\$ 62,204
Community Development Home Rehab	Checking	-	-	-	22,774
Community Development Home Program	Checking	-	-	-	854
Community Development MONAS Loan	Checking	-	-	-	8
Community Development NSP Program	Checking	-	-	-	63,933
Metro Narcotics Agency	Savings	-	95,495	95,495	95,495
2006 Water Projects	Savings	-	-	-	1,398,837
Fiscal Account SCSWA	Savings	-	-	-	1,201,326
Revenue Bonds Proceeds	Savings	-	-	-	12,574,907
Treasury Fund - Operating	Checking	12,129,135	-	12,129,135	12,182,885
Payroll Direct Deposit Account	Checking	(32,862)	-	(32,862)	-
Accounts Payable	Checking	(1,619,282)	-	(1,619,282)	-
On Demand	Checking	42,847	-	42,847	50,703
Depository	Checking	482,815	-	482,815	-
Credit Card	Checking	2,862	-	2,862	-
Electronic	Checking	(814,343)	-	(814,343)	-
Total deposit accounts		<u>\$ 10,191,172</u>	<u>\$ 95,495</u>	<u>\$ 10,286,667</u>	<u>\$ 27,653,926</u>

Account	Type of Account	Pooled Investments	MVRDA Accounts	Total Reconciled Balance	On Deposit 6/30/2012
INVESTMENTS					
<i>Wells Fargo Bank</i>					
Stagecoach Sweep Repo	Sweep	\$ 9,664,181	\$ -	\$ 9,664,181	
<i>Wells Fargo Brokerage Services, LLC</i>					
FNMA Step 2/8/2027-13	Investment	3,001,440	-	3,001,440	
<i>First Tennessee</i>					
FFCB 1.57 11/7/2016-12	Investment	9,745	-	9,745	
FHLMC Step 7/27/2023-12	Investment	3,005,220	-	3,005,220	
FHLMC 1.4 1/25/2017-13	Investment	1,005	-	1,005	
FHLMC Step 1/25/2027-13	Investment	7,026,600	-	7,026,600	
FHLMC Step 2/22/2027-13	Investment	4,017,840	-	4,017,840	
FNMA 1.25 3/14/2017-13	Investment	2,003	-	2,003	
FNMA Step 2/8/2027-13	Investment	7,003,360	-	7,003,360	
FNMA Step 2/8/2027-13	Investment	5,004,500	-	5,004,500	
FNMA Step 3/12/2027-13	Investment	3,004,830	-	3,004,830	
FNMA Step 1/25/2027-13	Investment	7,048,020	-	7,048,020	
FNMA Step 4/16/2027-13	Investment	8,070,400	-	8,070,400	
FNMA Step 4/26/2027-13	Investment	5,028,200	-	5,028,200	
FNMA Step 5/24/2027-13	Investment	10,013,500	-	10,013,500	
FNMA Step 5/24/2027-13	Investment	9,011,700	-	9,011,700	
FNMA Step 6/21/2027-13	Investment	12,095,401	-	12,095,401	
FNMA Step 6/28/2027-13	Investment	7,975,760	-	7,975,760	
<i>Morgan Keegan</i>					
FHLB Step 3/5/2027-12	Investment	8,401,512	-	8,401,512	
FHLMC Step 11/21/2023-12	Investment	3,000,000	-	3,000,000	
FHLMC Step 2/22/2027-13	Investment	8,447,509	-	8,447,509	
FNMA Step 5/24/2027-13	Investment	8,004,800	-	8,004,800	
Total investments		<u>128,837,526</u>	<u>-</u>	<u>128,837,526</u>	
Total deposits and investments		<u>139,028,698</u>	<u>95,495</u>	<u>139,124,193</u>	
<i>Other Cash</i>					
Petty Cash & Change Funds		-	100	100	
<i>Accrued Interest Receivable</i>					
Accrued Interest - Pooled Investments	Accrued Int	611,014	-	611,014	
Total cash and investments		<u>139,639,712</u>	<u>95,595</u>	<u>139,735,307</u>	
Less balances in City of Las Cruces funds		<u>138,756,469</u>	<u>-</u>	<u>138,756,469</u>	
Metro cash and investment balance		<u>\$ 883,243</u>	<u>\$ 95,595</u>	<u>\$ 978,838</u>	

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Mr. Hector H. 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, including the budgetary comparisons, of the Metro Narcotics Agency (METRO), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012. 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

Management of METRO is responsible for establishing and maintaining effective 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness.

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 could 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*.

This report is intended solely for the information and use of management, the board of directors, others within the entity, and the New Mexico Department of Finance 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.

Moss Adams LLP

Albuquerque, New Mexico
November 14, 2012

Metro Narcotics Agency
Schedule of Findings and Responses
For the Year Ended June 30, 2012

There were no audit findings for the fiscal year ended June 30, 2012.

Metro Narcotics Agency
Schedule of Prior Year Findings and Responses
For the Year Ended June 30, 2012

There were no audit findings for the fiscal year ended June 30, 2011.

Metro Narcotics Agency
Exit Conference and Financial Statement Preparation
For the Year Ended June 30, 2012

Exit Conference

An exit conference was conducted on November 14, 2012, in a closed meeting of the Board of Directors pursuant to *Section 12-6-5 NMSA, 1978* with the following individuals in attendance:

Metro

Mayor Ken Miyagishima	Board Member
Robert Garza	Board Member

City of Las Cruces (Fiscal Agent)

Mark Winson	Assistant City Manager - Chief Administrative Officer
Brian Denmark	Assistant City Manager - Chief Operating Officer

Melissa Nelson	Accounting Supervisor
Maria Villa	Accounting Supervisor
Gene Connelly	City Attorney

Moss Adams LLP

Larry Carmony	Partner
Ryan Luetkemeyer	Senior Manager
Lupita Martinez	Senior Manager

Financial Statement Preparation

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