



*REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION*

FOR

METRO NARCOTICS AGENCY

June 30, 2017

MOSSADAMS.COM

Metro Narcotics Agency

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Metro Narcotics Agency
June 30, 2017

OFFICIAL ROSTER

The Board of Directors, none of whom are employed by Metro Narcotics Agency, for the year ended June 30, 2017, are:

| | |
|-----------------|---------------|
| Jaime Montoya | Chairman |
| Enrique Vigil | Vice Chairman |
| Ken Miyagishima | Board Member |
| Stuart C. Ed | Board Member |
| Chuck McMahon | Board Member |
| Ramon Gonzales | Board Member |
| William Weisler | Board Member |
| Mark D'Antonio | Board Member |

Report of Independent Auditors

Mr. Timothy Keller, State Auditor of New Mexico and
The Board of Directors of the Metro Narcotics Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund and major special revenue funds, of the Metro Narcotics Agency (Metro) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Metro's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Metro's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the budgetary comparisons for the general fund and major special revenue funds of Metro as of June 30, 2017, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Reporting Entity

As described in Note 1, the financial statements of the Metro are intended to present the financial position of the governmental activities and each major fund of Metro. They do not purport to, and do not, present fairly the financial position of the governmental activities and each major fund of the City of Las Cruces as of June 30, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Metro's basic financial statements. The accompanying supplementary information such as the Schedule of Pledged Collateral and Schedule of Deposit Accounts and Investments on pages 36 and 37 and Schedule of Joint Powers Agreements on page 38 are schedules required by 2.2.2 NMAC and are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Pledged Collateral, Schedule of Deposit Accounts and Investments, and, Schedule of Joint Powers Agreements are schedules required by 2.2.2. *NMAC*, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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, Schedule of Joint Powers Agreements are schedules required by 2.2.2. *NMAC*, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2017 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* in considering Metro's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
November 22, 2017

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2017

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, 2017. 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 position 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 position presents information on all of Metro's assets, deferred outflows, and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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, 2017

The statement of activities presents information showing how Metro's net position changed during the most recent fiscal year. All changes in net position 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.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Financial Analysis of Metro Narcotics as a Whole

Net Position—In 2017, net position decreased to \$692,457 from \$757,829 in 2016. Actual expenditures exceeded actual revenue resulting in a net position decrease of \$65,372.

Table 1 summarizes the net position of its governmental activities.

Table 1
Net Position
As of June 30,

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Assets | | |
| Current assets | \$ 675,213 | \$ 689,202 |
| Capital assets, net | 177,262 | 156,685 |
| Total assets | <u>852,475</u> | <u>845,887</u> |
| Deferred outflows related to pensions | - | 5,791 |
| Total assets and deferred outflows of resources | <u>852,475</u> | <u>851,678</u> |
| Liabilities | | |
| Current and other liabilities | 160,018 | 17,373 |
| Net pension liability | - | 76,476 |
| Total liabilities | <u>160,018</u> | <u>93,849</u> |
| Net Position | | |
| Net investment in capital assets | 177,262 | 156,685 |
| Restricted for seized assets | 243,900 | 427,597 |
| Unrestricted | <u>271,295</u> | <u>173,547</u> |
| Total net position | <u>692,457</u> | <u>757,829</u> |
| Total liabilities, deferred inflows, and net position | <u>\$ 852,475</u> | <u>\$ 851,678</u> |

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Changes in Net Position—Total revenues for the year ended June 30, 2017, were \$511,813 compared with expenses of \$647,870. Total revenues for the year ended June 30, 2016, were \$1,170,099 compared with expenses of \$1,305,644. Table 2 summarizes the changes in net position for the year.

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

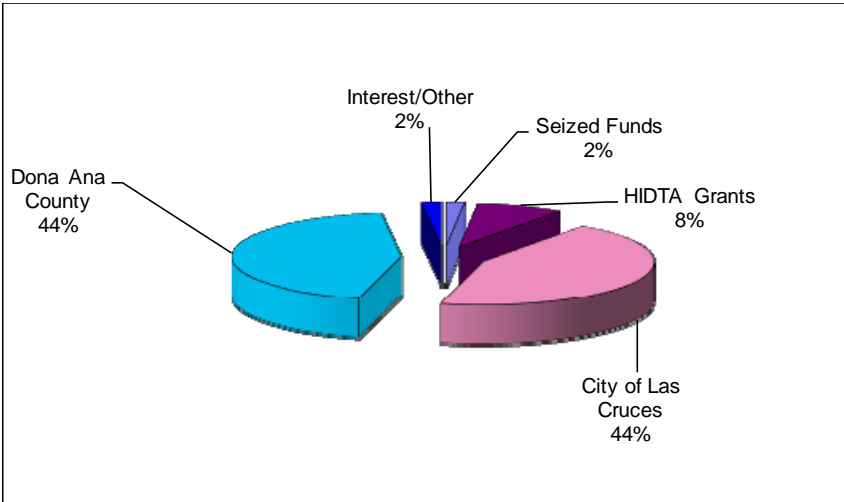
| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Revenues | | |
| Program revenues | | |
| Operating grants | \$ 42,192 | \$ 633,197 |
| Charges for services | 451,086 | 451,086 |
| General revenue | | |
| Investment income (loss) | (1,126) | 19,070 |
| Other revenues | 19,661 | 66,746 |
| Total revenue | <u>511,813</u> | <u>1,170,099</u> |
| Expenses – law enforcement | <u>647,870</u> | <u>1,305,644</u> |
| Transfers in | <u>70,685</u> | <u>-</u> |
| Change in net position | (65,372) | (135,545) |
| Net position, beginning of year | 757,829 | 893,374 |
| Net position, end of year | <u>\$ 692,457</u> | <u>\$ 757,829</u> |

Grant Activities—For the period ended June 30, 2017, operating grants included a \$6,594 Federal Bureau of Investigation grant, and a \$35,598 grant balance for another Federal Bureau of Investigations grant awarded in fiscal year 2016 for a total of \$42,192.

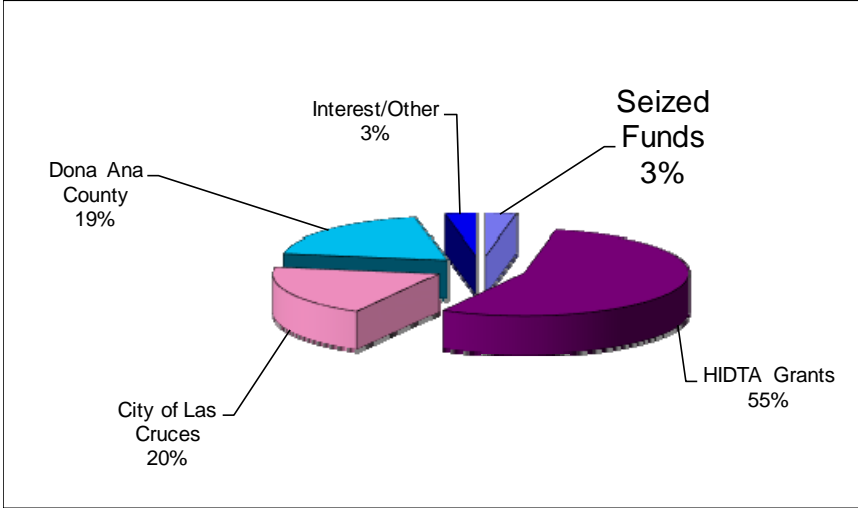
Charts 1 and 2 shows the revenues by source for fiscal years 2017 and 2016, respectively.

**Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

**Chart 1
2017 Revenues by Source**



**Chart 2
2017 Revenues by Source**



Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2017

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, 2017.

Table 3
Budgetary Comparison – Aggregate of All Funds
For the Year Ended June 30, 2017

| | Budget | | Actual | Variance | Percent Variance |
|------------------------------------|---------------------|---------------------|---------------------|--------------------|---------------------|
| | Original | Final | | | |
| Revenues | | | | | |
| Operating grants | \$ 614,052 | \$ 1,271,310 | \$ 42,192 | \$ (1,229,118) | -97% |
| Charges for services | 451,086 | 451,086 | 451,086 | - | 0% |
| Investment income | - | - | (1,126) | (1,126) | 100% |
| Other revenues | - | - | 19,661 | 19,661 | 100% |
| Total revenue | <u>1,065,138</u> | <u>1,722,396</u> | <u>511,813</u> | <u>(1,210,583)</u> | -70% |
| Expenditures | | | | | |
| Law enforcement | 1,170,320 | 1,950,456 | 589,310 | 1,361,146 | 70% |
| Capital outlay | - | 107,122 | 79,137 | 27,985 | 26% |
| Total expenditures | <u>1,170,320</u> | <u>2,057,578</u> | <u>668,447</u> | <u>1,389,131</u> | 68% |
| Revenues (under) over expenditures | <u>\$ (105,182)</u> | <u>\$ (335,182)</u> | <u>\$ (156,634)</u> | <u>\$ 178,548</u> | 53% |

In fiscal year 2017, the increase from the original revenue budget to the final revenue budget is due to an increase to the High Intensity Drug Trafficking grant during mid-year. The differences between the final budget and the actual results are related to grant expenditure for the High Intensity Drug Trafficking grant being reclassified out of Metro Narcotics funds. Other revenue actuals were higher than budget due to the increase in seizure activities. The total of all revenues decreased by 70% over the final budget in the amount of \$1,210,583.

The increase from the original expenditure budget and the final expenditure budget in fiscal year 2017 is due to the allocation of a new grant received mid-year and budgeted over the entire 2017 fiscal year. This caused an inflated budget that will rollover into the 2018 fiscal year budget. This caused a considerable variance between the final budget and the actual resulting in total expenditures to be at 68% less than budget.

Metro Narcotics Agency
Management’s Discussion and Analysis
For the Year Ended June 30, 2017

Capital Assets

As of June 30, 2017, the organization’s capital assets totaled \$177,262 net of accumulated depreciation of \$837,495. As of June 30, 2016, the organization’s capital assets totaled \$156,685 net of accumulated depreciation of \$839,473.

Table 4 provides details of the net capital assets.

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

| | <u>2017</u> | <u>2016</u> |
|--------------------------|-------------------|-------------------|
| Metro equipment | \$ 23,557 | \$ 84,095 |
| Seized equipment | 639,244 | 560,107 |
| HIDTA equipment | 351,956 | 351,956 |
| Total equipment | <u>1,014,757</u> | <u>996,158</u> |
| Accumulated depreciation | <u>(837,495)</u> | <u>(839,473)</u> |
| | <u>\$ 177,262</u> | <u>\$ 156,685</u> |

During the fiscal year 2017 asset additions totaled \$79,137 and retirements totaled \$60,538, resulting in an increase in total equipment of \$18,599.

Economic Outlook

With an official end to the recent Great Recession, national economic expansion continues. The overall U.S. unemployment rate has fallen below 5%, down from the 10% experienced by the country in 2009. The U.S. job market has experienced growth with non-farm employment estimated to increase by 0.7% in 2017 and 1.4% in 2018. The average hourly earnings for all employees in the private sector have increased by 2.5% over the last 12 months.

The National GDP (Gross Domestic Product) is anticipated to rise to approximately 1.85% in the 2017-2018 fiscal year. This rise is influenced by consumer spending resulting from increases in employment and increases in the average hourly earnings for all employees.

The economy of the City of Las Cruces is growing moderately and is forecasted to remain stable over the coming fiscal year. Non-farm employment is expected to grow at 0.6% for the 2017-2018 fiscal year. The majority of employment gains will be in the private sector, especially Health Care, Social Assistance, and Accommodation/Food Services industries. Employment growth in the public sector, however, is anticipated to remain flat.

Metro Narcotics Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Permitted valuation is anticipated to decrease in fiscal year 2017-2018. This is due to a reduction in commercial and residential construction and repairs. The construction market has been one market segment which has been greatly impacted over recent years, with slow and uneven recovery causing City staff to expect the issuance of new residential building permits to remain below 500 units for the 2017-2018 fiscal year. This will mark the seventh year in a row that new housing permits have fallen below 500 units.

Population growth for the City of Las Cruces is relatively slow and is expected to only make slight gains in the coming fiscal year. The expected rate of growth is under 1.0% for the fourth year in a row. This slow rate of population growth is directly linked to local job opportunities and residential permit issuance.

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 Position and Governmental Funds Balance Sheet
June 30, 2017

| | General Fund | Seized Assets-DOJ Fund | Seized Assets-Treasury Fund | Seized Assets-State Fund | Grant Fund | Total | Adjustments (Note 11) | Statement of Net Position |
|--------------------------------------|-------------------|------------------------------|-----------------------------------|--------------------------------|---------------|-------------------|--------------------------|---------------------------------|
| Assets | | | | | | | | |
| Current assets | | | | | | | | |
| Cash and cash equivalents | \$ 238,625 | \$ - | \$ - | \$ - | \$ - | \$ 238,625 | \$ - | \$ 238,625 |
| Restricted cash and cash equivalents | - | 286,516 | 58,365 | 45,549 | - | 390,430 | - | 390,430 |
| Receivables | 5,000 | - | - | - | - | 5,000 | - | 5,000 |
| Due from general fund | - | - | - | - | 235 | 235 | (235) | - |
| Due from other governments | 41,158 | - | - | - | - | 41,158 | - | 41,158 |
| Total current assets | <u>284,783</u> | <u>286,516</u> | <u>58,365</u> | <u>45,549</u> | <u>235</u> | <u>675,448</u> | <u>(235)</u> | <u>675,213</u> |
| Capital assets - equipment, net | - | - | - | - | - | - | 177,262 | 177,262 |
| Total assets | <u>284,783</u> | <u>286,516</u> | <u>58,365</u> | <u>45,549</u> | <u>235</u> | <u>675,448</u> | <u>177,027</u> | <u>852,475</u> |
| Liabilities | | | | | | | | |
| Current liabilities | | | | | | | | |
| Due to Metro grant fund | 235 | - | - | - | - | 235 | (235) | - |
| Accounts payable | 11,363 | 145,562 | - | 968 | - | 157,893 | - | 157,893 |
| Accrued payroll liabilities | 1,890 | - | - | - | 235 | 2,125 | - | 2,125 |
| Total current liabilities | <u>13,488</u> | <u>145,562</u> | <u>-</u> | <u>968</u> | <u>235</u> | <u>160,253</u> | <u>(235)</u> | <u>160,018</u> |
| Fund Balance/Net Position | | | | | | | | |
| Restricted for seized assets | - | 140,954 | 58,365 | 44,581 | - | 243,900 | (243,900) | - |
| Committed | 39,257 | - | - | - | - | 39,257 | (39,257) | - |
| Unassigned | 232,038 | - | - | - | - | 232,038 | (232,038) | - |
| Total fund balance | <u>271,295</u> | <u>140,954</u> | <u>58,365</u> | <u>44,581</u> | <u>-</u> | <u>515,195</u> | <u>(515,195)</u> | <u>-</u> |
| Total liabilities and fund balance | <u>\$ 284,783</u> | <u>\$ 286,516</u> | <u>\$ 58,365</u> | <u>\$ 45,549</u> | <u>\$ 235</u> | <u>\$ 675,448</u> | | |
| Net position | | | | | | | | |
| Net investment in capital assets | | | | | | | 177,262 | 177,262 |
| Restricted for seized assets | | | | | | | 243,900 | 243,900 |
| Unrestricted | | | | | | | 271,295 | 271,295 |
| Total net position | | | | | | | <u>692,457</u> | <u>692,457</u> |
| Total liabilities and net position | | | | | | | <u>\$ 177,027</u> | <u>\$ 852,475</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, 2017

| | General Fund | Seized Assets- DOJ Fund | Seized Assets-Treasury Fund | Seized Assets-State Fund | Grant Fund | Total | Adjustments (Note 11) | Statement of Net Activities |
|---|-------------------|-------------------------------|-----------------------------------|--------------------------------|---------------|-------------------|--------------------------|-----------------------------------|
| Revenues | | | | | | | | |
| Program | | | | | | | | |
| Operating grants | \$ 42,192 | \$ - | \$ - | \$ - | \$ - | \$ 42,192 | \$ - | \$ 42,192 |
| Charges for services | 451,086 | - | - | - | - | 451,086 | - | 451,086 |
| General | | | | | | | | |
| Investment income (loss) | (340) | (698) | (79) | (9) | - | (1,126) | - | (1,126) |
| Other revenues | 2,414 | 10,801 | - | 6,446 | - | 19,661 | - | 19,661 |
| Total revenues | <u>495,352</u> | <u>10,103</u> | <u>(79)</u> | <u>6,437</u> | <u>-</u> | <u>511,813</u> | <u>-</u> | <u>511,813</u> |
| Expenditures/Expenses | | | | | | | | |
| Current - law enforcement activities | | | | | | | | |
| Personnel | 196,284 | 30,018 | - | - | - | 226,302 | - | 226,302 |
| Repairs and maintenance | 52,084 | 9,615 | - | - | - | 61,699 | - | 61,699 |
| Services | 103,614 | - | - | - | - | 103,614 | - | 103,614 |
| Supplies | 11,377 | 78,084 | - | - | - | 89,461 | - | 89,461 |
| Insurance | 90,498 | - | - | - | - | 90,498 | - | 90,498 |
| Other | 14,432 | 3,304 | - | - | - | 17,736 | - | 17,736 |
| Depreciation | - | - | - | - | - | - | 58,560 | 58,560 |
| Capital outlay | - | 79,137 | - | - | - | 79,137 | (79,137) | - |
| Total expenditures/expenses | <u>468,289</u> | <u>200,158</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>668,447</u> | <u>(20,577)</u> | <u>647,870</u> |
| Transfers in | - | - | - | - | - | - | 70,685 | 70,685 |
| Net change in fund balances | 27,063 | (190,055) | (79) | 6,437 | - | (156,634) | 91,262 | (65,372) |
| Fund balances/net position, beginning of year | <u>244,232</u> | <u>331,009</u> | <u>58,444</u> | <u>38,144</u> | <u>-</u> | <u>671,829</u> | <u>86,000</u> | <u>757,829</u> |
| Fund balances/net position, end of year | <u>\$ 271,295</u> | <u>\$ 140,954</u> | <u>\$ 58,365</u> | <u>\$ 44,581</u> | <u>\$ -</u> | <u>\$ 515,195</u> | <u>\$ 177,262</u> | <u>\$ 692,457</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, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Operating Grant | \$ 20,000 | \$ 20,000 | \$ 42,192 | \$ 22,192 |
| Charges for services | 451,086 | 451,086 | 451,086 | - |
| Investment loss | - | - | (340) | (340) |
| Other revenue | - | - | 2,414 | 2,414 |
| Total revenues | <u>471,086</u> | <u>471,086</u> | <u>495,352</u> | <u>24,266</u> |
| Expenditures | | | | |
| Current - law enforcement activities | | | | |
| Personnel | 175,239 | 168,960 | 196,284 | (27,324) |
| Repairs and maintenance | 76,103 | 64,072 | 52,084 | 11,988 |
| Services | 96,347 | 98,067 | 103,614 | (5,547) |
| Supplies | 12,000 | 14,426 | 11,377 | 3,049 |
| Insurance | 104,222 | 116,286 | 90,498 | 25,788 |
| Other | 7,175 | 9,275 | 14,432 | (5,157) |
| Total expenditures | <u>471,086</u> | <u>471,086</u> | <u>468,289</u> | <u>2,797</u> |
| Change in fund balance | - | - | 27,063 | 27,063 |
| Fund balance, beginning of year | <u>244,232</u> | <u>244,232</u> | <u>244,232</u> | - |
| Fund balance, end of year | <u>\$ 244,232</u> | <u>\$ 244,232</u> | <u>\$ 271,295</u> | <u>\$ 27,063</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 Asset Fund-DOJ
For the Year Ended June 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|-----------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Investment income | \$ - | \$ - | \$ (698) | \$ (698) |
| Other revenues | - | - | 10,801 | 10,801 |
| Total revenues | - | - | 10,103 | 10,103 |
| Expenditures | | | | |
| Current - law enforcement activities | | | | |
| Personnel | 25,000 | 50,000 | 30,018 | 19,982 |
| Repairs and maintenance | 15,000 | 15,000 | 9,615 | 5,385 |
| Services | - | 772 | - | 772 |
| Supplies | 31,000 | 128,106 | 78,084 | 50,022 |
| Other | 4,000 | 4,000 | 3,304 | 696 |
| Capital outlay | - | 107,122 | 79,137 | 27,985 |
| Total expenditures | 75,000 | 305,000 | 200,158 | 104,842 |
| Change in fund balance | (75,000) | (305,000) | (190,055) | 114,945 |
| Fund balance, beginning of year | 331,009 | 331,009 | 331,009 | - |
| Fund balance, end of year | \$ 256,009 | \$ 26,009 | \$ 140,954 | \$ 114,945 |

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 Asset Fund-Treasury
For the Year Ended June 30, 2017

| | Budgeted Amounts | | Actual | Variance with |
|--|------------------|------------------|------------------|--|
| | Original | Final | | Final Budget - Positive (Negative) |
| Revenues | | | | |
| Investment income | \$ - | \$ - | \$ (79) | \$ (79) |
| Total revenues | - | - | (79) | (79) |
| Change in fund balance | - | - | (79) | (79) |
| Fund balance, beginning of year | 58,444 | 58,444 | 58,444 | - |
| Fund balance, end of year | <u>\$ 58,444</u> | <u>\$ 58,444</u> | <u>\$ 58,365</u> | <u>\$ (79)</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 Asset Fund-State
For the Year Ended June 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|-----------------|------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Investment income | \$ - | \$ - | \$ (9) | \$ (9) |
| Other revenues | - | - | 6,446 | 6,446 |
| Total revenues | - | - | 6,437 | 6,437 |
| Expenditures | | | | |
| Current - law enforcement activities | | | | |
| Personnel | 20,182 | 20,182 | - | 20,182 |
| Supplies | 8,000 | 8,000 | - | 8,000 |
| Other | 2,000 | 2,000 | - | 2,000 |
| Total expenditures | 30,182 | 30,182 | - | 30,182 |
| Change in fund balance | (30,182) | (30,182) | 6,437 | 36,619 |
| Fund balance, beginning of year | 38,144 | 38,144 | 38,144 | - |
| Fund balance, end of year | \$ 7,962 | \$ 7,962 | \$ 44,581 | \$ 36,619 |

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
Grants Fund
For the Year Ended June 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|--------------|--------|---|
| | Original | Final | | |
| Revenues | | | | |
| Operating grants | \$ 594,052 | \$ 1,251,310 | \$ - | \$ (1,251,310) |
| Total revenues | 594,052 | 1,251,310 | - | (1,251,310) |
| Expenditures | | | | |
| Current - law enforcement activities | | | | |
| Personnel | 128,249 | 304,790 | - | 304,790 |
| Repairs and maintenance | - | 469 | - | 469 |
| Building rental | 425,000 | 849,999 | - | 849,999 |
| Services | 32,560 | 77,921 | - | 77,921 |
| Supplies | 5,107 | 10,356 | - | 10,356 |
| Other | 3,136 | 7,775 | - | 7,775 |
| Total expenditures | 594,052 | 1,251,310 | - | 1,251,310 |
| Change in fund balance | - | - | - | - |
| Fund balance, beginning of year | - | - | - | - |
| Fund balance, end of year | \$ - | \$ - | \$ - | \$ - |

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

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

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

Organization-Wide Financial Statements—The organization-wide financial statements consist of the statement of net position 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, 2017

1) Summary of Significant Accounting Policies (continued)

Special Revenue Fund (Seized Asset Funds)—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”). In fiscal year 2014, the seized assets fund was separated into three separate seized asset funds to avert commingling of funds. The three funds are 1) Department of Justice (DOJ), 2) Department of Treasury, and 3) State of New Mexico.

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, 2017

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 Mexico State law prohibits expenses in excess of approved appropriations. If a fund is not overspent, it is in compliance with state law. The budget may be amended by Metro's board of directors; however, State of New Mexico, Department of Finance and Administration approval must be obtained for budget increases and budget transfers between funds.

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 three 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. Committed fund balance – 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 general fund budgeted expenditures for fiscal year 2017 were \$471,086 and 1/12 of this amount is \$39,257. Metro's general fund balance at June 30, 2017 is \$271,295.
3. 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.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

1) Summary of Significant Accounting Policies (continued)

Net Position

Net position of Metro are classified and displayed as three components:

- a. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of funds with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net funds that do not meet the definition of "net investment in capital assets" or "restricted".

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. During the year ended June 30, 2017, there was a change in the method of pension liability allocation. See Note 7 for further consideration.

Deferred Outflows and Inflows of Resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

1) Summary of Significant Accounting Policies (continued)

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 Metro have been omitted.

- ◆ Statement No. 75: *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- ◆ Statement No. 84: *Fiduciary Activities*
- ◆ Statement No. 85: *Omnibus 2017*
- ◆ Statement No. 86: *Certain Debt Extinguishment Issues*
- ◆ Statement No. 87: *Leases*

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

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, 2017:

| | |
|--|--------------------------|
| Equity in City of Las Cruces cash and investment pool | \$ 538,309 |
| Metro Narcotics Agency money market account and petty cash | <u>90,746</u> |
| Total cash and investments | <u><u>\$ 629,055</u></u> |

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

| | |
|---------------------------------|--------------------------|
| Cash and cash equivalents | \$ 238,625 |
| Restricted cash and investments | <u>390,430</u> |
| Total | <u><u>\$ 629,055</u></u> |

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

| | |
|----------------------------------|------------------------------|
| Carrying amount of bank deposits | \$ (736,459) |
| Investments at fair value | 142,922,868 |
| Accrued interest | <u>671,325</u> |
| Total cash and investment pool | <u><u>\$ 142,857,734</u></u> |

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

2) Cash and Cash Equivalents (continued)

Bank Balance of Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The City’s investment ordinance requires collateralization of 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, 2017, the City’s deposits, totaling \$73,503,734, was insured by FDIC or collateralized by securities held in trust by a third-party bank for the depository bank in the City’s name and thus was not exposed to custodial credit risk.

Investments

The City’s investment policy allows investment in: a) U.S. Treasury obligations; b) U.S. government agency and instrumentality obligations; c) repurchase agreements whose underlying securities and/or collateral consist of allowed investments described in (a) or (b) above; d) commercial paper rated not less than A-1, P-1, F-1, or equivalent by a nationally recognized rating agency; e) pooled funds maintained by the State Treasurer; and f) mutual funds whose portfolios consist solely of allowed investments.

As of June 30, 2017, the City’s investment pool had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Avg Maturity (Yrs)</u> |
|--------------------------------|-----------------------|--|
| Overnight repurchase agreement | \$ 16,674,840 | |
| U.S. agency coupon bonds | 124,250,088 | 13.31 |
| U.S. Treasury Bills | 1,997,940 | 0.53 |
| Total Pooled Investments | <u>\$ 142,922,868</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 \$124,250,089 issued by U.S. government agencies that are callable by the issuer under certain circumstances. For purposes of calculating weighted average maturity, the City uses duration.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

2) Cash and Cash Equivalents (continued)

Credit Risk. The City’s investment policy lists the criteria for selecting investments and the order of priority as follows: 1) safety; 2) liquidity; and 3) yield. As of June 30, 2017, the City’s investments in coupon bonds of U.S. agencies were rated AA+ or better by Standard & Poor’s and Aaa by Moody’s Investors Service. 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, 2017, 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 formal investment policy places no limit on the amount the City may invest in any one issuer. As of June 30, 2017, 47% of the City’s investment pool was in Fannie Mae (FNMA), 36% was in Federal Home Loan Mortgage Corporation (FHLMC), 10% in Federal Home Loan Bank (FHLB), 6% was in Federal Farm Credit Bank (FFCB), and 1% in U.S. Treasury Bills.

Fair Market Value Hierarchy. The City categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2017:

| <u>Investment Type</u> | <u>Level 2</u> |
|--------------------------|-----------------------|
| U.S. Agency Coupon Bonds | \$ 124,250,088 |
| U.S. Treasury Securities | 1,997,940 |
| Stagecoach Seep Repo | 16,674,840 |
| Total Pooled Investments | <u>\$ 142,922,868</u> |

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

3) Due From Other Governments

Metro receives funding from several governmental agencies including Federal Bureau of Investigation, The County of Dona Ana, and the City of Las Cruces. At June 30, 2017, the amounts receivable from these entities are as follows:

| | |
|----------------------------|-----------|
| Due From Federal | \$ 22,363 |
| Due From Local Governments | 18,795 |
| Total | \$ 41,158 |

4) Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

| | Balances June 30, 2016 | Additions | Retirements | Balances June 30, 2017 |
|-------------------------------|---------------------------|-----------|-------------|---------------------------|
| Equipment | \$ 996,158 | \$ 79,137 | \$ (60,538) | \$ 1,014,757 |
| Less accumulated depreciation | (839,473) | (58,560) | 60,538 | (837,495) |
| Capital assets, net | \$ 156,685 | \$ 20,577 | \$ - | \$ 177,262 |

Depreciation expense for the year ended June 30, 2017, was \$58,560. In addition, acquisition of three vehicles totaled \$79,137 and asset retirements totaled \$60,538, resulting in an increase in total equipment of \$18,599.

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.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

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 agencies 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, 2017

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 Retirement Fund (PERA Fund) is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978) Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org/> using the Audit Report Search function for agency 366.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

7) Pension Plan – Public Employees Retirement Association (continued)

The PERA coverage options that apply to Metro Narcotics Agency are 0.0% of the City's proportionate share. Statutorily required contributions to the pension plan from Metro Narcotics Agency were \$0 and employer paid member benefits that were "picked up" by the employer were \$0 for the year ended June 30, 2017.

At June 30, 2016, Metro reported a liability of \$76,476 for its proportionate share of the City's net pension liability and reported deferred outflows of \$5,791 related to the pension. During the year ended June 30, 2017, there was a change in the method of pension liability allocation. The City allocates pension liability based on each funds contributions to PERA. During the year ended June 30, 2016, Metro recorded part of the salary and hourly wages for High Intensive Drug Trafficking Area Agency (HIDTA) personnel. During the year ended June 30, 2017, personnel expenditures recorded by Metro were only related to overtime expenditures for HIDTA personnel. Since the HIDTA agency is responsible for all salary and hourly personnel expenditures, the City of Las Cruces now recognizes the related pension liability that used to be recognized by Metro.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

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 healthcare 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 healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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 serve 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 healthcare 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.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

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

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 healthcare 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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4, or 5; municipal fire member coverage plan 3, 4, or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statutes required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

Metro's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$0, \$1,088, and \$927, respectively, which equal the required contributions for each year.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

9) Commitments

Metro leases facilities under an operating lease, which includes substantially all utilities and maintenance costs. The lease expires in 2020; however, Metro has the option to renew this lease for a period of up to four additional five-year periods beginning on August 1, 2020.

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

| Year ended June 30, | | Due Date |
|---------------------|--------------|----------|
| 2018 | \$ 425,000 | 8/1/2017 |
| 2019 | 425,000 | 8/1/2018 |
| 2020 | 425,000 | 8/1/2019 |
| 2021 | 425,000 | 8/1/2020 |
| | \$ 1,700,000 | |

10) Interfund Balances

At June 30, 2017, the general fund owed \$235 to the grant 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 \$515,195 differ from total net position of \$621,771 reported on the statement of net position 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 position reported on the statement of activities because depreciation expense is reported on the statement of activities.

Metro Narcotics Agency
Notes to Financial Statements
June 30, 2017

11) Adjustments (continued)

The following is a summary of the differences:

| | |
|---|---------------------------|
| Fund balance | \$ 515,195 |
| Capital assets are not financial resources and, therefore, are not reported in the funds | <u>177,262</u> |
| Net position | <u><u>\$ 692,457</u></u> |
| | |
| Net change in fund balances | \$ (156,634) |
| Capital outlay | 79,137 |
| Depreciation expense | (58,560) |
| Transfers in | <u>70,685</u> |
| Net change in net position | <u><u>\$ (65,372)</u></u> |

12) Related-Party Transactions

Metro receives funding from members of the joint powers agreement. During the year ended June 30, 2017, 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, 2017

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 | |
| FNMA FGPC 2.500% 07/01/30 | 3128MMTS2 | 07/01/30 | | \$ 4,354,351 |
| FNMA FNMS 3.500% 09/01/42 | 3138M0CQ1 | 09/01/42 | | 23,518,868 |
| FNMA FNMS 2.500% 7/01/31 | 3138WHJY9 | 07/01/31 | | 4,615,376 |
| FNMA FNMS 3.000% 08/01/2042 | 31417CVE2 | 08/01/42 | | 28,079,922 |
| FNMA FNMS 3.500% 03/01/2034 | 31418BA71 | 03/01/34 | | 18,694,187 |
| | | | | <u>\$ 79,262,704</u> |

Summary of Collateralization

Wells Fargo Bank

| | |
|---|----------------------|
| Ending bank balance | \$ 73,503,734 |
| Less: FDIC insurance | (250,000) |
| Total uninsured public funds | <u>\$ 73,253,734</u> |
| Pledged collateral held by the pledging bank's trust department in the City's name | \$ 79,262,704 |
| 100% collateral requirement | <u>73,253,734</u> |
| Pledged collateral in excess of requirement | <u>\$ 6,008,970</u> |
| Uninsured and uncollateralized | <u>\$ -</u> |

Metro Narcotics Agency

Schedule of Deposit Accounts and Investments

June 30, 2017

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 | Fair Value Level | Pooled Cash & Investments | Metro Narcotics Accounts | Total Reconciled Balance | On Deposit 6/30/2017 |
|------------------------------------|--------------------|------------------|------------------------------|-----------------------------|--------------------------------|-------------------------|
| DEPOSIT ACCOUNTS | | | | | | |
| <i>Wells Fargo Bank</i> | | | | | | |
| Community Development | Checking | 1 | \$ - | \$ - | \$ - | \$ 129,111 |
| Community Development Home Rehab | Checking | 1 | - | - | - | 25,311 |
| Community Development Home Program | Checking | 1 | - | - | - | 490 |
| Metro Narcotics Agency | Savings | 1 | - | 90,646 | 90,646 | 90,646 |
| 2006 Water Projects | Savings | 1 | - | - | - | 22,005,217 |
| Revenue Bonds Proceeds | Savings | 1 | - | - | - | 48,912,862 |
| Treasury Fund - Operating | Checking | 1 | 2,325,358 | - | 2,325,358 | 2,325,084 |
| Payroll Direct Deposit Account | Checking | 1 | (1,590,081) | - | (885,218) | - |
| Accounts Payable | Checking | 1 | (1,848,612) | - | (1,848,612) | - |
| On Demand | Checking | 1 | 4,622 | - | 5,044 | 15,013 |
| Depository | Checking | 1 | 50,202 | - | 50,202 | - |
| Credit Card | Checking | 1 | 279,704 | - | 32,720 | - |
| Electronic | Checking | 1 | 42,348 | - | 42,348 | - |
| Total deposit accounts | | | <u>\$ (736,459)</u> | <u>\$ 90,646</u> | <u>\$ (187,512)</u> | <u>\$ 73,503,734</u> |

| Account | Type of Account | Fair Value Level | Pooled Investments | Metro Narcotics Accounts | Total Reconciled Balance |
|---|--------------------|------------------|-----------------------|-----------------------------|--------------------------------|
| INVESTMENTS | | | | | |
| <i>Wells Fargo Bank</i> | | | | | |
| Stagecoach Sweep Repo | Sweep | 2 | \$ 16,674,840 | \$ - | \$ 16,674,840 |
| <i>First Tennessee</i> | | | | | |
| FFCB 2.24 11/10/2027-16 | Investment | 2 | 4,707,100 | - | 4,707,100 |
| FFCB 2.24 7/6/2027-17 | Investment | 2 | 2,814,390 | - | 2,814,390 |
| FHLB 0 11/24/2017 | Investment | 2 | 1,991,440 | - | 1,991,440 |
| FHLB 0 7/12/2017 | Investment | 2 | 1,999,500 | - | 1,999,500 |
| FHLB 2.2 10/13/2026-17 | Investment | 2 | 962 | - | 962 |
| FHLB 2.35 12/27/2024-16 | Investment | 2 | 792,736 | - | 792,737 |
| FHLB Step 5/9/2031-16 | Investment | 2 | 7,370,850 | - | 7,370,850 |
| FHLMC Step 2/23/2031-16 | Investment | 2 | 10,650,090 | - | 10,650,090 |
| FHLMC Step 4/20/2032-17 | Investment | 2 | 4,970,200 | - | 4,970,200 |
| FHLMC Step 5/23/2031-16 | Investment | 2 | 17,724,850 | - | 17,724,850 |
| FHLMC Step 5/23/2031-16 | Investment | 2 | 11,841,480 | - | 11,841,480 |
| FNMA Step 2/10/2031-17 | Investment | 2 | 13,722,100 | - | 13,722,100 |
| FNMA Step 2/20/2031-17 | Investment | 2 | 7,847,120 | - | 7,847,120 |
| FNMA Step 2/24/2031-17 | Investment | 2 | 7,914,880 | - | 7,914,880 |
| FNMA Step 3/10/2031-17 | Investment | 2 | 14,303,670 | - | 14,303,670 |
| FNMA Step 4/7/2031-17 | Investment | 2 | 15,598,720 | - | 15,598,720 |
| T-Bill 0 7/27/2017 | Investment | 2 | 999,450 | - | 999,450 |
| T-Bill 0 8/31/2017 | Investment | 2 | 998,490 | - | 998,490 |
| Total investments | | | <u>142,922,868</u> | <u>-</u> | <u>142,922,869</u> |
| Total deposits and investments | | | <u>142,186,409</u> | <u>90,646</u> | <u>142,735,357</u> |
| <i>Other Cash</i> | | | | | |
| Petty Cash & Change Funds | Cash | | - | 100 | 100 |
| <i>Accrued Interest Receivable</i> | | | | | |
| Accrued Interest - Pooled Investments | Accrued Int | | 671,325 | - | 671,325 |
| Total cash and investments | | | <u>142,857,734</u> | <u>90,746</u> | <u>142,948,480</u> |
| Less balances in City of Las Cruces funds | | | <u>142,319,425</u> | <u>-</u> | <u>142,319,425</u> |
| Metro cash and investment balance | | | <u>\$ 538,309</u> | <u>\$ 90,746</u> | <u>\$ 629,055</u> |

Metro Narcotics Agency
Schedule of Joint Powers Agreements
June 30, 2017

| Participants | Responsible Party | Description | Beginning Date | Ending Date | Project Amount | Current Year Contributions | Audit Responsibility |
|--|-------------------|---|-----------------|----------------|----------------|----------------------------|----------------------|
| City of Las Cruces | Metro | Intervention and prosecution of drug and drug related activities | October 1, 2001 | Perpetual | \$ 225,543.00 | \$ 225,543.00 | City of Las Cruces |
| Dona Ana County | Metro | Intervention and prosecution of drug and drug related activities | October 1, 2001 | Perpetual | \$ 225,543.00 | \$ 225,543.00 | City of Las Cruces |
| Regents of New Mexico State University | Metro | Intervention and prosecution of drug and drug related activities | October 1, 2001 | Perpetual | \$ - | \$ - | City of Las Cruces |
| New Mexico State Police Department | Metro | Intervention and prosecution of drug and drug related activities | October 1, 2001 | Perpetual | \$ - | \$ - | City of Las Cruces |
| Federal Bureau of Investigation (FBI) | Metro | Investigate/prosecute avenues by which to convict and incarcerate dangerous offenders | June 12, 2013 | 30 days notice | \$ 20,000 | \$ 2,682.00 | City of Las Cruces |

Other Information

Report of Independent Auditors 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. Timothy Keller, New Mexico State Auditor and
The Board of Directors of the Metro Narcotics Agency

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the budgetary comparisons of general fund and major special revenue funds of the Metro Narcotics Agency (Metro), Las Cruces, New Mexico, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Metro's basic financial statements, and have issued our report thereon dated November 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Metro's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Metro's internal control.

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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metro's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Metro's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Albuquerque, New Mexico
November 22, 2017

Metro Narcotics Agency
Schedule of Findings and Responses
For the Year Ended June 30, 2017

There were no audit findings for the fiscal year ended June 30, 2017.

Metro Narcotics Agency
Schedule of Prior Year Findings and Responses
For the Year Ended June 30, 2017

There were no audit findings for the fiscal year ended June 30, 2016.

Metro Narcotics Agency
Exit Conference and Financial Statement Preparation
For the Year Ended June 30, 2017

Exit Conference

An exit conference was conducted on November 14, 2017, in a closed meeting of the Board of Directors pursuant to *Section 12-6-5 NMSA, 1978* with the following individuals in attendance:

Metro Board of Directors

| | |
|-----------|--------------|
| Stuart Ed | Board Member |
|-----------|--------------|

City of Las Cruces (Fiscal Agent)

| | |
|---------------------|--------------------------------|
| Rosie Duran | Director of Financial Services |
| Maria Villa | Accounting Manager |
| Jennifer Vega-Brown | City Attorney |

Moss Adams

| | |
|------------------|----------------|
| Ryan Luetkemeyer | Senior Manager |
|------------------|----------------|

Financial Statement Preparation

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