



The Rogoff Firm

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS & FINANCIAL ADVISORS

# Rio Grande Natural Gas Association

Financial Statements  
and  
Independent Auditors' Report

June 30, 2008 and 2007

# Rio Grande Natural Gas Association

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**Rio Grande Natural Gas Association**  
**June 30, 2008**

Board of Directors

The Board of Directors for the year ended June 30, 2008, none of whom are employed by the City of Las Cruces or the Village of Hatch are:

Mr. Andrew Nuñez	President
Mrs. Dolores Connor	Vice-President
Mr. Dave Sment	Secretary
Mr. Thomas Halsell	Board Member
Mr. Gil Jones	Board Member
Mr. Miguel Silva	Board Member

## Independent Auditors' Report

Hector Balderas, State Auditor, and  
The Board of Directors of Rio Grande Natural Gas Association

We have audited the accompanying basic financial statements of the Rio Grande Natural Gas Association (the "Association") as of and for the years ended June 30, 2008 and 2007. We have also audited the schedules of revenues, expenses and changes in net assets—budget and actual for the years then ended as listed in the table of contents. These financial statements and schedules are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rio Grande Natural Gas Association as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the supplementary schedules referred to above present fairly, in all material respects, the respective budgetary comparison of the Association for the years ended June 30, 2008 and 2007 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of

that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Association's basic financial statements and the budgetary comparison presented as supplemental information. The accompanying schedules of pledged collateral and deposit accounts and investments are presented as supplementary information for purposes of additional analysis and to meet the requirements of the State of New Mexico Office of the State Auditor, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REDW LLC

November 26, 2008

**Rio Grande Natural Gas Association**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2008**

This section presents our discussion and analysis of the financial performance of Rio Grande Natural Gas Association (the "Association") for the fiscal years ended June 30, 2008 and 2007. It is intended to be read in conjunction with the financial statements, which follow this section.

The Rio Grande Natural Gas Association is a nonprofit corporation owned by the City of Las Cruces (Las Cruces) and the Village of Hatch (Hatch), New Mexico. The Association provides inter-community natural gas and services to residents of Las Cruces, Hatch and Dona Ana County.

The Board of Directors and its management value fiscal accountability. The Association operates as an enterprise and is a proprietary fund for financial reporting purposes. Proprietary funds record revenues when earned and expenses when incurred.

**Financial Highlights**

During fiscal year 2008:

- ◆ Net assets of the Association decreased by \$259,076 to \$14,928,126.
- ◆ Net operating revenues for the fiscal year were \$11,847,273.
- ◆ Operating expenses for the fiscal year were \$12,586,496.

During fiscal year 2007:

- ◆ Net assets of the Association increased by \$1,362,810 to \$15,187,202.
- ◆ Net operating revenues for the fiscal year were \$12,805,110.
- ◆ Operating expenses for the fiscal year were \$12,543,299.

**Overview of the Financial Statements**

This annual report consists of four parts:

1. Management's discussion and analysis.
2. The basic financial statements.
3. Notes to the basic financial statements.
4. Supplementary information—Schedule of Revenues and Expenses—Budget and Actual.

***Financial Statements***

The statement of net assets presents the Association's assets and liabilities at fiscal year-end. The term "net assets" refers to the difference between total assets and total liabilities. It is an indicator of the Association's current financial condition. The change in the net assets over time is an indication of either improvement or deterioration of the financial condition of the Association.

**Rio Grande Natural Gas Association**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2008**

The statement of revenues, expenses and changes in net assets provides the results of the Association's revenue and expense activity. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of related cash flows. Thus revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (i.e., accrued liabilities).

The statement of cash flows provides information about the Association's sources and uses of cash throughout the fiscal year. This statement classifies sources and uses of cash into separate categories: operating, investing, and capital and related financing. The statement assists in determining if the entity has the ability to generate net cash flows to meet the Association's obligations.

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

**Financial Analysis of Rio Grande Natural Gas Association**

*Net Assets.* The Association's net assets decreased to \$14,928,126 at June 30, 2008. Table 1 summarizes the net assets.

**Table 1**  
**Net Assets as of June 30,**

	2008	2007	2006
Current assets	\$ 2,630,339	\$ 3,895,316	\$ 4,065,667
Restricted cash equivalents	1,896,883	1,887,776	1,737,887
Deferred charges	22,258	31,571	42,446
Capital assets, net	<u>14,674,118</u>	<u>13,969,601</u>	<u>12,774,028</u>
Total assets	<u>\$ 19,223,598</u>	<u>\$ 19,784,264</u>	<u>\$ 18,620,028</u>
Current liabilities	\$ 1,618,374	\$ 1,487,101	\$ 1,286,522
Long-term debt	<u>2,677,098</u>	<u>3,109,961</u>	<u>3,509,114</u>
Total liabilities	<u>4,295,472</u>	<u>4,597,062</u>	<u>4,795,636</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	11,542,020	10,434,640	8,859,914
Restricted	1,896,883	1,887,776	1,737,887
Unrestricted	<u>1,489,223</u>	<u>2,864,786</u>	<u>3,226,591</u>
Total net assets	<u>14,928,126</u>	<u>15,187,202</u>	<u>13,824,392</u>
Total liabilities and net assets	<u>\$ 19,223,598</u>	<u>\$ 19,784,264</u>	<u>\$ 18,620,028</u>

**Rio Grande Natural Gas Association**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2008**

*Changes in Net Assets.* Total revenues and investment income for the year ended June 30, 2008, were \$12,008,511 compared with operating costs and interest of \$12,783,363. Table 2 summarizes the changes in net assets for the year. Chart 1 shows the revenues by source.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Operating revenues</b>	<b>\$ 11,847,273</b>	\$ 12,805,110	\$ 13,834,737
<b>Operating costs and expenses</b>	<b><u>12,586,496</u></b>	<u>12,543,299</u>	<u>13,181,841</u>
Operating income	<b><u>(739,223)</u></b>	261,811	652,896
<b>Nonoperating revenues</b>			
Investment income	<b>161,238</b>	278,265	180,330
Interest expense	<b><u>(196,867)</u></b>	<u>(287,190)</u>	<u>(241,560)</u>
Total nonoperating revenue (expenses)	<b><u>(35,629)</u></b>	<u>(8,925)</u>	<u>(61,230)</u>
Capital contributions	<b><u>515,776</u></b>	<u>1,109,924</u>	<u>-</u>
Change in net assets	<b><u>(259,076)</u></b>	1,362,810	591,666
Net assets, beginning of year	<b><u>15,187,202</u></b>	<u>13,824,392</u>	<u>13,232,726</u>
<b>Net assets, end of year</b>	<b><u>\$ 14,928,126</u></b>	<u>\$ 15,187,202</u>	<u>\$ 13,824,392</u>

For the year ended June 30, 2008, the Association's net assets decreased \$259,076 compared to an increase of \$1,362,810 in 2007. Operating revenues were lower primarily due to a warmer winter in 2007-2008 and a large increase in uncollectible accounts. Investment income was lower because the Association carried a smaller cash balance in fiscal year 2008. Capital contributions are significantly lower due to the slowdown in growth in new housing developments.

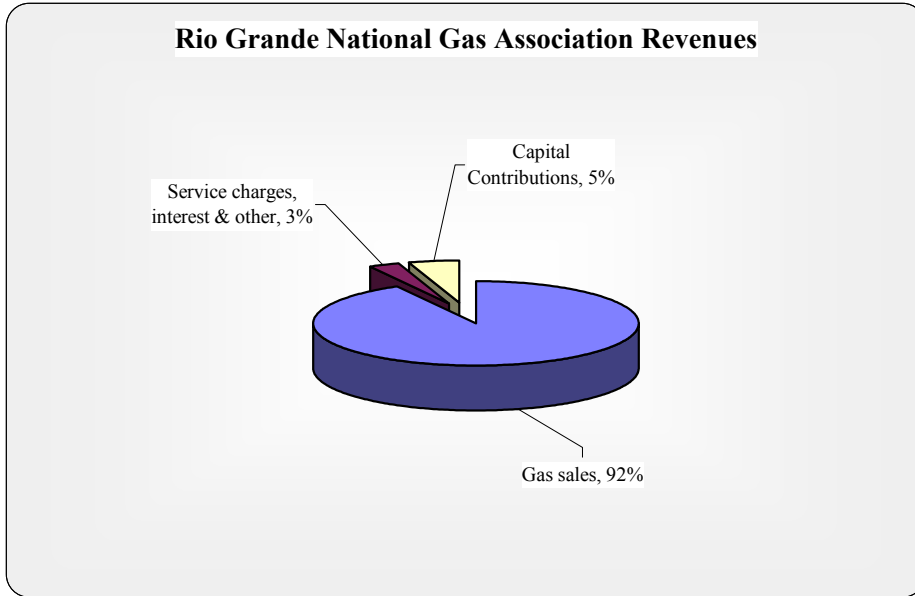
Rio Grande Natural Gas Association changed their estimate for the allowance for the doubtful accounts in fiscal year 2008 due to rising gas prices and a slowdown in the economy. In fiscal year 2008, the estimate includes the total of all account balances 90 days and older. This change in estimate decreased operating income by \$451,999 with a corresponding reduction in the change of net assets.



**Rio Grande Natural Gas Association  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008**

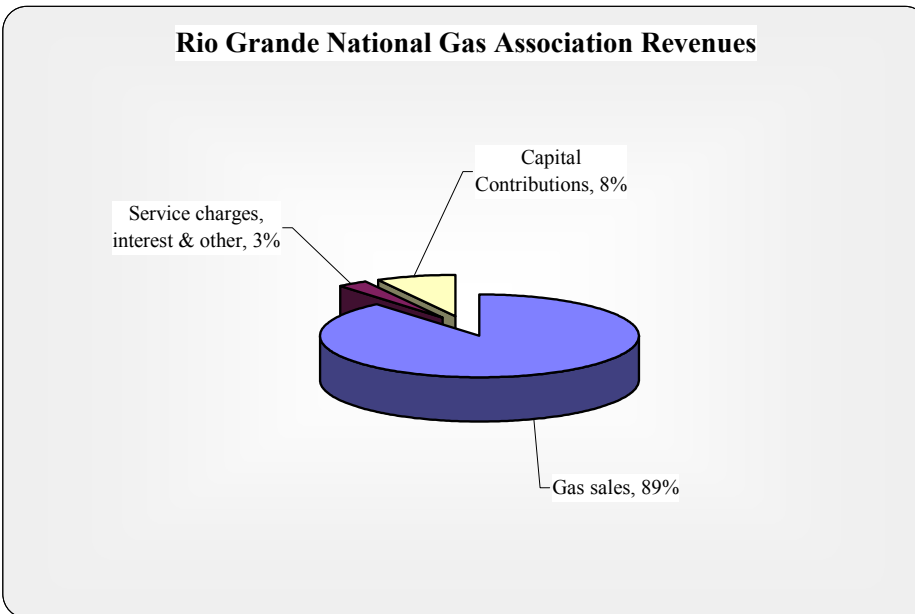
**Chart 1**

**2008 Revenues by Source**



**Chart 2**

**2007 Revenues by Source**



**Rio Grande Natural Gas Association**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2008**

*Budgetary Information.* The Board of Directors approves budgets and, when necessary, revisions to budgets. Rio Grande Natural Gas Association makes every effort to ensure expenditures do not exceed funds available. Table 3 summarizes the variance between the budgeted and actual expenses at June 30, 2008.

**Table 3**  
**Budget Variance**  
**For the Year Ended June 30, 2008**

	Budget		Actual	Variance	Percent Variance
	Original	Final			
<b>Revenues</b>					
Sale of natural gas, net of sales tax	\$ 16,997,647	\$ 14,218,864	<b>\$ 12,138,102</b>	\$ (2,080,762)	-14.6%
Provision for uncollectible accounts	(15,298)	(16,796)	<b>(468,795)</b>	(451,999)	2691.1%
Investment income	84,476	216,693	<b>161,238</b>	(55,455)	-25.6%
Other	135,653	181,109	<b>177,966</b>	(3,143)	-1.7%
Total revenue	<u>17,202,478</u>	<u>14,599,870</u>	<b><u>12,008,511</u></b>	<u>(2,591,359)</u>	<u>-17.7%</u>
<b>Expenses</b>					
Cost of gas	13,309,330	10,268,969	<b>8,775,798</b>	1,493,171	14.5%
Operations	2,812,917	4,062,225	<b>3,810,698</b>	251,527	6.2%
Interest	221,539	266,630	<b>196,867</b>	69,763	26.2%
Total expenses	<u>16,343,786</u>	<u>14,597,824</u>	<b><u>12,783,363</u></b>	<u>1,814,461</u>	<u>46.9%</u>
Capital contribution	282,343	442,933	<b>515,776</b>	72,843	16.4%
Net change in net assets	<u>\$ 1,141,035</u>	<u>\$ 444,979</u>	<b><u>\$ (259,076)</u></b>	<u>\$ (704,055)</u>	<u>-158.2%</u>

The change from the original budget to the final budget in the sales of natural gas and the cost of gas is attributable the slowdown in growth for residential housing throughout fiscal year 2008. The increase from the original budget to the final budget for operating expenses is related to the additional charges for system operations. Actual sales of natural gas and the cost of gas are lower than budgeted revenues and costs due to a warmer winter than anticipated and the slowdown in growth in the housing market. Investment income was lower than budgeted due to lower rates of return. Actual interest expense is lower than budgeted due to lower than expected interest owed on customer deposits.

**Rio Grande Natural Gas Association**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2008**

**Capital Assets**

As of June 30, 2008, the Association's capital assets totaled \$14,674,118, net of accumulated depreciation of \$9,201,795. Table 4 provides details of the net capital assets:

**Table 4**  
**Capital Assets and**  
**Accumulated Depreciation**  
**June 30,**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Gas utility system	\$ 23,057,656	\$ 21,969,464	\$ 19,691,096
Other	<u>818,257</u>	<u>459,147</u>	<u>818,256</u>
Capital assets, gross	<b>23,875,913</b>	22,428,611	20,509,352
Accumulated depreciation	<u>(9,201,795)</u>	<u>(8,459,010)</u>	<u>(7,735,324)</u>
<b>Capital assets, net</b>	<b><u>\$ 14,674,118</u></b>	<b><u>\$ 13,969,601</u></b>	<b><u>\$ 12,774,028</u></b>

During the fiscal year ended June 30, 2008, the Association purchased additions to the distribution system costing approximately \$1,471,489 including \$515,776 contributed from developers. Retirements for fiscal year ended June 30, 2008 were \$24,187 for a net increase of \$1,447,302.

**Economic Outlook**

Changes in the general economic conditions for the City of Las Cruces and the surrounding area influence the economic condition of the Association.

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

**Rio Grande Natural Gas Association**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2008**

**Table 5**  
**Las Cruces Economic Indicators**  
**For the Years Ended June 30,**

	2008	2007	Change	
			Number	Percent
Total Employment (MSA)*	\$ 68,625	\$ 67,483	\$ 1,142	1.7%
Single Family Building Permits	675	1,294	(619)	-47.8%
Total Permit Valuation (Millions)	185	316	(131)	-41.5%
Population Estimate**	89,722	86,160	3,562	4.1%

\* Preliminary - Data for Metropolitan Statistical Area

\*\* Census Bureau Estimates as of July 1

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

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

**Contacting the Financial Management**

The financial report is designed to provide the community and others with a general overview of Rio Grande Natural Gas Association's finances and demonstrate the Association's financial accountability. Questions about this report or requests for additional information may be addressed to the Chairman at:

Rio Grande Natural Gas Association Board  
P.O. Box 20000  
Las Cruces, NM 88004

## Financial Statements

**Rio Grande Natural Gas Association**  
**Statements of Net Assets**  
**June 30,**

	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Current assets		
Pooled cash and investments	\$ 1,874,876	\$ 2,819,994
Trade accounts receivable, net of allowance for doubtful accounts of \$583,853 in 2008 and \$198,733 in 2007	714,795	1,033,742
Prepaid insurance	40,668	41,580
Total current assets	2,630,339	3,895,316
Restricted cash equivalents		
Pooled cash - customer deposits	377,518	379,774
Bond and interest reserve fund	656,250	686,139
Gas system repairs and replacements fund	305,275	296,012
Bond interest and sinking fund	557,840	525,851
Total restricted cash equivalents	1,896,883	1,887,776
Deferred charges		
Bond issuance costs	22,258	31,571
Total deferred charges	22,258	31,571
Capital assets		
Gas plant in service	23,123,464	21,676,162
Gas plant acquisition adjustment	752,449	752,449
	23,875,913	22,428,611
Less accumulated depreciation and amortization	(9,201,795)	(8,459,010)
Net capital assets	14,674,118	13,969,601
Total assets	\$ 19,223,598	\$ 19,784,264

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

**Rio Grande Natural Gas Association**  
**Statements of Net Assets — continued**  
**June 30,**

	<b>2008</b>	<b>2007</b>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current maturities of bonds payable	\$ 455,000	\$ 425,000
Accounts payable	661,617	554,512
Customer deposits	377,518	379,774
Accrued expenses		
Interest payable	75,090	83,909
Salaries and related benefits	4,350	2,028
Other	44,799	41,878
Total current liabilities	<b>1,618,374</b>	<b>1,487,101</b>
Long-term debt		
Bond payable	2,730,000	3,185,000
Unamortized premium on bonds payable	2,905	4,120
Deferred gain on bond refunding	(55,807)	(79,159)
Total long-term debt	<b>2,677,098</b>	<b>3,109,961</b>
Total liabilities	<b>4,295,472</b>	<b>4,597,062</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	11,542,020	10,434,640
Restricted	1,896,883	1,887,776
Unrestricted	1,489,223	2,864,786
Total net assets	<b>14,928,126</b>	<b>15,187,202</b>
Total liabilities and net assets	<b>\$ 19,223,598</b>	<b>\$ 19,784,264</b>

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

**Rio Grande Natural Gas Association**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended June 30,**

	2008	2007
<b>Operating Revenues</b>		
Sale of natural gas, net of sales tax	\$ 12,138,102	\$ 12,749,720
Provision for uncollectible accounts	<u>(468,795)</u>	<u>(123,768)</u>
Net operating sales	11,669,307	12,625,952
Other	<u>177,966</u>	<u>179,158</u>
Net operating revenues	<u>11,847,273</u>	<u>12,805,110</u>
<b>Operating Costs and Expenses</b>		
Cost of natural gas sold	8,775,798	9,142,493
Personnel	167,610	220,638
Customer service	395,000	395,000
Administrative charges	82,433	82,433
Purchased services-contractor	1,800,637	1,423,925
Other services	135,058	141,015
Permits/fees	337,551	305,375
Supplies	8,273	11,146
Insurance	65,402	78,565
Other	51,762	19,023
Depreciation and amortization	<u>766,972</u>	<u>723,686</u>
Total operating costs and expenses	<u>12,586,496</u>	<u>12,543,299</u>
Operating income (loss)	<u>(739,223)</u>	<u>261,811</u>
<b>Other Income (Expense)</b>		
Investment income	161,238	278,265
Interest expense	<u>(196,867)</u>	<u>(287,190)</u>
Total other income (expense)	<u>(35,629)</u>	<u>(8,925)</u>
Capital contributions	<u>515,776</u>	<u>1,109,924</u>
Change in net assets	(259,076)	1,362,810
Net assets, beginning of year	<u>15,187,202</u>	<u>13,824,392</u>
<b>Net assets, end of year</b>	<u><u>\$ 14,928,126</u></u>	<u><u>\$ 15,187,202</u></u>

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



**Rio Grande Natural Gas Association**  
**Statements of Cash Flows**  
**For the Years Ended June 30,**

	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 11,310,048	\$ 12,458,081
Cash paid to employees	(162,363)	(247,708)
Cash paid to suppliers	<u>(10,680,670)</u>	<u>(11,318,919)</u>
Net cash provided by operating activities	<u>467,015</u>	<u>891,454</u>
<b>Cash flows from investing activities</b>		
Interest	<u>161,238</u>	<u>278,265</u>
Net cash provided by investing activities	<u>161,238</u>	<u>278,265</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition of capital assets	(955,715)	(809,335)
Bond principal payments	(425,000)	(405,000)
Interest paid	<u>(183,549)</u>	<u>(327,183)</u>
Net cash used for capital and related financing activities	<u>(1,564,264)</u>	<u>(1,541,518)</u>
Net decrease in cash and cash equivalents	(936,011)	(371,799)
Cash and cash equivalents, beginning of year	<u>4,707,770</u>	<u>5,079,569</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 3,771,759</u>	<u>\$ 4,707,770</u>

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

**Rio Grande Natural Gas Association**  
**Statements of Cash Flows — continued**  
**For the Years Ended June 30,**

	<b>2008</b>	<b>2007</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>		
Operating income (loss)	\$ (739,223)	\$ 261,811
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	766,972	723,686
Provision for uncollectible accounts	468,795	123,768
Amortization of deferred charges	9,313	10,875
Change in assets and liabilities		
Accounts receivable	(149,849)	(471,492)
Prepaid expenses	912	(3,613)
Accounts payable	107,104	218,856
Accrued expenses	5,247	(27,070)
Customer deposits	(2,256)	109,165
Total adjustments	<b>1,206,238</b>	<b>684,175</b>
Net cash provided by operating activities	<b>\$ 467,015</b>	<b>\$ 945,986</b>
Cash and investments at June 30 consist of		
Current assets		
Pooled cash and investments	\$ 1,874,876	\$ 2,819,994
Noncurrent assets		
Restricted cash and investments	<b>1,896,883</b>	<b>1,887,776</b>
Total cash and investments, June 30	<b>\$ 3,771,759</b>	<b>\$ 4,707,770</b>

**Supplemental Disclosure**

During the year ended June 30, 2008, the Association acquired \$515,776 of gas distribution systems from developers through noncash capital contributions.

# **Rio Grande Natural Gas Association**

## **Notes to Financial Statements**

**June 30, 2008 and 2007**

### **1) Summary of Significant Accounting Policies**

#### Nature of Operations

The Rio Grande Natural Gas Association (the “Association”) operates as a community gas association and services customers located in Dona Ana County, New Mexico, that are primarily located outside the City of Las Cruces, New Mexico. The Association was formed in 1969 in accordance with the provisions of Sections 3-28-1 through 3-28-22 of the New Mexico State Statutes, and organized as a nonprofit corporation owned by the City of Las Cruces (the “City”) and the Village of Hatch (the “Village”). According to its charter, the life of the Association is 100 years, and upon dissolution the assets of the Association will belong to the City and the Village. The Association is governed by a Board of Directors appointed by the governing bodies of the City and the Village. The Association is a governmental organization, as the Board of Directors consists of members appointed by governmental entities. The Association does not have any component units.

#### Fiscal Agent

The City of Las Cruces is the fiscal agent for Rio Grande Natural Gas Association. As fiscal agent, the City establishes funds to control and manage money for a particular purpose, or in order to demonstrate that it is meeting legal responsibilities for the use of certain monies.

#### Basis of Accounting

For financial reporting purposes, the Association is a special-purpose government engaged only in business-type activities. Accordingly, the Association’s financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when liabilities are incurred. In addition, when both restricted and unrestricted net assets are available to finance the Association’s operations, it is the Association’s policy to first apply restricted net assets to such expenses, followed by unrestricted net assets.

The Association reports proprietary fund activities based on applicable Government Accounting Standards Board (GASB) pronouncements along with applicable Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards and interpretations, APB opinions, and ARBs issued before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The Association has also elected to apply FASB Statements and Interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Proprietary fund accounting distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses result from transactions associated

# Rio Grande Natural Gas Association

## Notes to Financial Statements

June 30, 2008 and 2007

### 1) Summary of Significant Accounting Policies — continued

#### Basis of Accounting — continued

with the principal activity of the Association. Nonoperating revenues and expenses result from ancillary activities.

#### Repairs and Replacements

The cost of repairs and minor replacements to the gas plant is charged to operating expense when incurred. Additions and betterments are capitalized.

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less (including restricted assets) to be cash equivalents.

#### Accounts Receivable

Accounts receivable are amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts. The allowance is estimated based on management's knowledge of past collection history. During fiscal year 2008, management adopted a policy to establish a 100% allowance for all accounts over ninety days past due.

#### Capital Assets

Capital assets are long-lived nonfinancial assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are presented at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date of donation. Capital assets are depreciated using the straight-line method over estimated useful lives ranging from six to forty years.

#### Restricted Cash Equivalents

In accordance with the Trust Indenture with Wells Fargo Bank New Mexico, the Association maintains funds restricted for the repayment of the 1999 revenue bonds and gas system repairs.

#### Net Assets

Net assets invested in capital assets, net of related debt represent the total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Unrestricted net assets are net resources available for use at the discretion of the Board. Restricted resources are used before unrestricted resources when expenses are incurred for purpose for which both restricted and unrestricted net assets are available.

# Rio Grande Natural Gas Association

## Notes to Financial Statements

June 30, 2008 and 2007

### 1) Summary of Significant Accounting Policies — continued

#### Budgets

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

#### Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on net earnings.

#### 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### 2) Cash and Cash Equivalents

The Association 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. The Association also maintains bank accounts in its own name for bond and interest reserve fund, gas system repairs and replacements fund, and bond interest and sinking fund.

Restricted cash equivalents are held in short-term money market funds that are invested in U.S. Treasury securities and considered to be cash equivalents. Use of these amounts is restricted to payment of the Association's outstanding bonds payable and gas system repairs.

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

Equity in City of Las Cruces cash and investment pool	\$ 2,252,394
Restricted cash and investments - RGNGA money market funds	<u>1,519,365</u>
Total cash and investments	<u>\$ 3,771,759</u>

# Rio Grande Natural Gas Association

## Notes to Financial Statements

June 30, 2008 and 2007

2) Cash and Cash Equivalents — continued

The City's cash and investment pool and the Association's accounts consist of the following:

	Pooled Cash & Investments	RGNGA Accounts
Carrying amount of bank deposits	\$ (1,985,360)	\$ -
Investments	128,721,760	1,519,365
Accrued interest	365,028	-
Total cash and investments	\$ 127,101,428	\$ 1,519,365

Bank Balance of Deposits

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment ordinance requires collateralization of 50% of the uninsured portion of the City's deposits with financial institutions. Securities pledged by financial institutions are accepted at market value, except obligations of the state of New Mexico and its subdivisions, which are accepted at par value. As of June 30, 2008, the total bank balance of the City's deposits was insured by FDIC or collateralized by securities held by the bank's trust department 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; and e) pooled funds maintained by the State Treasurer; and f) mutual funds whose portfolios consist solely of allowed investments. In addition, the City may invest money identified as long-term in the pools of the New Mexico State Investment Council subject to annual review and approval by the City Council.

**Rio Grande Natural Gas Association**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

2) Cash and Cash Equivalents — continued

Investments — continued

As of June 30, 2008, the Association and the City of Las Cruces investment pool had the following investments:

Investment Type	Fair Value	Weighted Avg Maturity (Yrs)
RGNGA money market funds	\$ 1,519,365	0.11
Pooled investments		
Money market funds	\$ 21,519,656	0.07
Commercial paper	19,451,144	0.12
U.S. agency discount notes	32,802,250	0.24
U.S. agency coupon bonds	34,340,820	1.34
Collateralized mortgage obligations	4,505,020	1.23
U.S. Treasury Notes	16,102,870	1.28
Total pooled investments	\$ 128,721,760	0.65

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

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

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

# Rio Grande Natural Gas Association

## Notes to Financial Statements

June 30, 2008 and 2007

### 2) Cash and Cash Equivalents — continued

#### Investments — 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, 2008, 5% of the City's investment pool was in Federal Farm Credit Bank (FFCB), 31% in Federal Home Loan Mortgage Corporation (FHLMC), and 14% in Federal National Mortgage Association (FNMA).

Restricted cash equivalents are held in short-term money market funds that are invested in U.S. Government Securities and considered to be cash equivalents. Use of these amounts is restricted to payment of the Association's outstanding bonds payable, gas system repairs and refund of customer deposits.

### 3) Deferred Charges

Deferred charges include unamortized bond issuance costs associated with the issuance of the 1999 Natural Gas System Revenue Bonds, which are being amortized ratably over the term of the bond. Amortization of deferred charges was \$9,314 and \$10,875 for the years ended June 30, 2008 and 2007, respectively.



**Rio Grande Natural Gas Association**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

**4) Capital Assets**

Capital assets activity for the Association during fiscal year 2008 was as follows:

	June 30, 2007	Additions	Deletions	Adjustments	June 30, 2008
<i>Capital assets not being depreciated</i>					
Land and easements	\$ 16,578	\$ -	\$ -	\$ -	\$ 16,578
Total capital assets not being depreciated	<u>16,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,578</u>
Other capital assets					
Intangible assets	49,230	-	-	-	49,230
Equipment	8,265	-	-	-	8,265
Transmission system	3,230,712	-	7,576	-	3,223,136
Distribution system	17,261,453	955,713	16,611	1,625,700	19,826,255
Contributed capital	1,109,924	515,776	-	(1,625,700)	-
Gas plant adjustment	752,449	-	-	-	752,449
Total other capital assets at cost	<u>22,412,033</u>	<u>1,471,489</u>	<u>24,187</u>	<u>-</u>	<u>23,859,335</u>
Less accumulated depreciation/amortization for					
Intangible assets	16,868	1,397	-	-	18,265
Equipment	8,265	-	-	-	8,265
Transmission system	1,824,916	91,820	7,576	-	1,909,160
Distribution system	5,896,068	662,420	16,611	6,703	6,548,580
Contributed capital	6,703	-	-	(6,703)	-
Gas plant adjustment	706,190	11,335	-	-	717,525
Total accumulated depreciation/ amortization	<u>8,459,010</u>	<u>766,972</u>	<u>24,187</u>	<u>-</u>	<u>9,201,795</u>
Total other capital assets at cost, net	<u>13,953,023</u>	<u>704,517</u>	<u>-</u>	<u>-</u>	<u>14,657,540</u>
Capital assets, net	<u>\$ 13,969,601</u>	<u>\$ 704,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,674,118</u>

**Rio Grande Natural Gas Association**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

4) Capital Assets — continued

Capital assets activity for the Association during fiscal year 2007 was as follows:

	June 30, 2006	Additions	Deletions	June 30, 2007
<i>Capital assets not being depreciated</i>				
Land and easements	\$ 16,578	\$ -	\$ -	\$ 16,578
Total capital assets not being depreciated	<u>16,578</u>	<u>-</u>	<u>-</u>	<u>16,578</u>
<i>Other capital assets</i>				
Intangible assets	49,230	-	-	49,230
Equipment	8,265	-	-	8,265
Transmission system	3,230,712	-	-	3,230,712
Distribution system	16,452,118	809,335	-	17,261,453
Contributed capital	-	1,109,924	-	1,109,924
Gas plant adjustment	752,449	-	-	752,449
Total other capital assets at historic cost	<u>20,492,774</u>	<u>1,919,259</u>	<u>-</u>	<u>22,412,033</u>
<i>Less accumulated depreciation/amortization for</i>				
Intangible assets	15,471	1,397	-	16,868
Equipment	8,265	-	-	8,265
Transmission system	1,733,098	91,818	-	1,824,916
Distribution system	5,289,760	606,308	-	5,896,068
Contributed capital	-	6,703	-	6,703
Gas plant adjustment	688,730	17,460	-	706,190
Total accumulated depreciation/amortization	<u>7,735,324</u>	<u>723,686</u>	<u>-</u>	<u>8,459,010</u>
Total other capital assets at historic costs, net	<u>12,757,450</u>	<u>1,195,573</u>	<u>-</u>	<u>13,953,023</u>
Capital assets, net	<u>\$ 12,774,028</u>	<u>\$ 1,195,573</u>	<u>\$ -</u>	<u>\$ 13,969,601</u>

Depreciation and amortization of capital assets was \$766,972 and \$723,686 for the years ended June 30, 2008 and 2007, respectively.

The gas plant acquisition adjustment represents the excess of the amount paid by the Association over the historical cost of that portion of the system purchased from Rio Grande Gas Company in 1970. The original acquisition adjustment of \$752,449 is being amortized on a straight-line basis ratably by charges to operating expense over forty years.

## Rio Grande Natural Gas Association

### Notes to Financial Statements

June 30, 2008 and 2007

#### 5) Bonds Payable

Bonds payable consist of the following at June 30:

	June 30, 2007	Increases	Decreases	June 30, 2008	Amount Due Within One Year
1999 Natural Gas System Revenue bonds	<u>\$ 3,610,000</u>	<u>\$ -</u>	<u>\$ 425,000</u>	<u>\$ 3,185,000</u>	<u>\$ 455,000</u>
	June 30, 2006	Increases	Decreases	June 30, 2007	Amount Due Within One Year
1999 Natural Gas System Revenue bonds	<u>\$ 4,015,000</u>	<u>\$ -</u>	<u>\$ 405,000</u>	<u>\$ 3,610,000</u>	<u>\$ 425,000</u>

Annual maturities on bonds payable are as follows:

Ending June 30	Principal	Interest	Total
2009	\$ 455,000	\$ 140,511	\$ 595,511
2010	480,000	120,282	600,282
2011	505,000	98,486	603,486
2012	540,000	73,750	613,750
2013	580,000	45,750	625,750
2014	625,000	15,625	640,625
	<u>\$ 3,185,000</u>	<u>\$ 494,404</u>	<u>\$ 3,679,404</u>

The interest rate on the 1999 Natural Gas System revenue bonds varies from 3.5% to 5% through 2013. As of June 30, 2008, the interest rate was 4.25%.

Payment of principal and interest is secured by the “net revenues” and other income derived from operation of the Natural Gas System and other sources. After costs of maintenance and operation have been paid from such revenues, the balance is to be deposited in trust accounts as follows in the order listed:

- (a) *Gas System Revenue Bond Sinking Fund*—An amount each month sufficient to pay all interest and principal when due.
- (b) *Bond and Interest Reserve Fund*—An amount each month equal to principal and interest of the monthly deposits required by the Gas System Revenue Bond and Interest Sinking Fund.
- (c) *Gas System Repair and Replacement Fund*—Payments of 10% of revenues per month, until an amount equal to 10% of budgeted operation and maintenance expenses has been accumulated.

# Rio Grande Natural Gas Association

## Notes to Financial Statements

June 30, 2008 and 2007

### 5) Bonds Payable — continued

(d) *Rebate Fund*—Rebate funds are to be used to make payments to the United States as required by Section 148(F) of the tax code.

During the years ended June 30, 2008 and 2007, these deposit requirements were met.

The trustee has invested bond proceeds in restricted yield State and Local Government—U.S. Treasury Certificates of Indebtedness to preserve the tax-exempt status of the bonds in accordance with Section 1/103-13 (c) of the Internal Revenue Code.

In 1999, the Association entered into an advance refunding transaction related to \$4,450,000 of its 1993 Natural Gas System Refunding and Improvement Revenue Bonds. A portion of the proceeds of the refunded issues was placed in trust and used to purchase securities of the U.S. government and related agencies at various interest rates and maturities sufficient to meet all debt service requirements of the refunded debt. The assets are administered by trustees and are restricted for retirement of refunded debt. The liability for the refunded bond and the related securities and escrow accounts are not included in the accompanying financial statements since the Association defeased its obligation for the payment of the refunded bonded debt upon completion of the refunding transaction. As of June 30, 2008, \$3,185,000 of the defeased bonds remained outstanding.

### 6) Related Party Transactions

The City acts as fiscal agent for the Association, and the City's employees handle the day-to-day operations of the Association. The Association reimburses the City for all expenditures incurred for the operation of the Association, plus an administrative fee to compensate it for acting as the fiscal agent of the Association. The Association paid the City \$2,970,266 in 2008 and \$2,874,553 in 2007. Additionally, the Association had gas sales of \$555,503 and \$640,941 to the Village of Hatch during the years ended June 30, 2008 and 2007, respectively.

### 7) Risk Management

The Association has purchased a commercial insurance policy for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to workers; and natural disasters. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

## Supplementary Information

**Rio Grande Natural Gas Association**  
**Schedule of Revenues, Expenses and Changes in Net Assets**  
**Budget and Actual**  
**For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>Operating Revenues</b>				
Sale of natural gas, net of sales tax	\$ 16,997,647	\$ 14,218,864	\$ 12,138,102	\$ (2,080,762)
Provision for uncollectible accounts	(15,298)	(16,796)	(468,795)	(451,999)
Net operating sales	16,982,349	14,202,068	11,669,307	(2,532,761)
Other	135,653	181,109	177,966	(3,143)
Net operating revenues	<u>17,118,002</u>	<u>14,383,177</u>	<u>11,847,273</u>	<u>(2,535,904)</u>
<b>Operating Expenses</b>				
Cost of natural gas sold	13,309,330	10,268,969	8,775,798	1,493,171
Personnel	313,588	259,749	167,610	92,139
Customer service	395,000	395,000	395,000	-
Administrative charges	82,433	82,433	82,433	-
Purchased services-contractor	740,268	1,830,580	1,800,637	29,943
Other services	172,966	187,766	135,058	52,708
Permits/fees	293,230	377,791	337,551	40,240
Supplies	28,800	15,700	8,273	7,427
Insurance	80,000	77,000	65,402	11,598
Other	22,470	65,600	51,762	13,838
Depreciation and amortization	684,162	770,606	766,972	3,634
Total operating costs and expenses	<u>16,122,247</u>	<u>14,331,194</u>	<u>12,586,496</u>	<u>1,744,698</u>
Operating income (loss)	<u>995,755</u>	<u>51,983</u>	<u>(739,223)</u>	<u>(791,206)</u>
<b>Other Income (Expense)</b>				
Investment income	84,476	216,693	161,238	(55,455)
Interest expense	(221,539)	(266,630)	(196,867)	69,763
Total other income (expense)	<u>(137,063)</u>	<u>(49,937)</u>	<u>(35,629)</u>	<u>14,308</u>
Capital contributions	282,343	442,933	515,776	72,843
Change in net assets	1,141,035	444,979	(259,076)	(704,055)
Net assets, beginning of the year	<u>15,187,202</u>	<u>15,187,202</u>	<u>15,187,202</u>	<u>-</u>
<b>Net assets, end of the year</b>	<u>\$ 16,328,237</u>	<u>\$ 15,632,181</u>	<u>\$ 14,928,126</u>	<u>\$ (704,055)</u>

**Rio Grande Natural Gas Association**  
**Schedule of Pledged Collateral**  
**June 30, 2008**

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

**Deposits**

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

**Summary of Collateralization**

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

**Rio Grande Natural Gas Association**  
**Schedule of Deposit Accounts and Investments**  
**June 30, 2008**

The City of Las Cruces is the fiscal agent of Rio Grande Natural Gas Association. Therefore, Rio Grande Natural Gas Association participates in the City's pooling of cash and investments. Below represents the amounts of Rio Grande Natural Gas Association's cash and investment balances in the pool.

Account	Account Type	Pooled Cash & Investments	RGNGA Accounts	Reconciled Balance	On Deposit 6/30/2008
<b>Deposit Accounts</b>					
<i>Wells Fargo Bank</i>					
Treasury Fund - Operating	Checking	\$ (1,353,172)	\$ -	\$ (1,353,172)	\$ 89,503
Payroll Direct Deposit Account	Checking	(206,575)	-	(206,575)	-
On Demand	Checking	31,346	-	31,346	50,035
Rio Grande Natural Gas Assoc Revenue	Checking	(456,959)	-	(456,959)	-
Community Development	Checking	-	-	-	173,533
Community Development Home Rehab	Savings	-	-	-	25,987
Community Development Home Program	Savings	-	-	-	1,557
Metro Narcotics Agency	Savings	-	-	-	95,162
Total deposit accounts		<u>\$ (1,985,360)</u>	<u>\$ -</u>	<u>\$ (1,985,360)</u>	<u>\$ 435,777</u>
<b>Investments</b>					
<i>Wells Fargo Bank</i>					
WF Treas Plus MM Fund - Sweep Acct	Sweep	\$ 7,439,326	\$ -	\$ 7,439,326	
Investment Custody Account	Investment	4,248,320	-	4,248,320	
Rio Grande Gas Reserve Fund	Mutual fund	-	656,250	656,250	
Rio Grande Gas Rep & Repl Fund	Mutual fund	-	305,275	305,275	
Rio Grande Natl Gas 1999 Bond Fund	Mutual fund	-	557,840	557,840	
<i>Wells Capital Management</i>					
CLC Liquidity Management Agency	Investment	103,692,733	-	103,692,733	
<i>Wells Fargo Brokerage Services, LLC</i>					
City of Las Cruces		7,315,599	-	7,315,599	
<i>New Mexico State New Mexigrow LGIP</i>					
Local Agency Investment Fund		<u>6,025,782</u>	<u>-</u>	<u>6,025,782</u>	
Total investments		<u>128,721,760</u>	<u>1,519,365</u>	<u>130,241,125</u>	
Total deposits and investments		126,736,400	1,519,365	128,255,765	
<i>Accrued Interest Receivable</i>					
WCM CLC Liquidity Management	Accrued Int	300,284	-	300,284	
Other Pooled Investments	Accrued Int	<u>64,744</u>	<u>-</u>	<u>64,744</u>	
Total cash and investments		127,101,428	1,519,365	128,620,793	
Less balances in City of Las Cruces funds		<u>124,849,034</u>	<u>-</u>	<u>124,849,034</u>	
RGNGA Cash and Investment Balances		<u>\$ 2,252,394</u>	<u>\$ 1,519,365</u>	<u>\$ 3,771,759</u>	



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

Hector Balderas, State Auditor  
and the Board of Directors of the Rio Grande  
Natural Gas Association

We have audited the accompanying basic financial statements and budgetary comparisons of the Rio Grande Natural Gas Association (the “Association”) as of and for the years ended June 30, 2008 and 2007 and have issued our report thereon dated November 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

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

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

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

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

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

REDW LLC

November 26, 2008

**Rio Grande Natural Gas Association**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2008**

There were no audit findings for the fiscal year ended June 30, 2008.

**Rio Grande Natural Gas Association**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2008**

There were no audit findings for the fiscal year ended June 30, 2007.

**Rio Grande Natural Gas Association**  
**Other Disclosures**  
**For the Year Ended June 30, 2008**

**Exit Conference**

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

**RGNGA Board of Directors**

Dolores Conner	Vice-President
Miguel Silva	Board Member

**RGNGA**

Rocio Gamboa	RGNGA Administrative Assistant
Gerald O'Donnell	RGNGA Attorney

**City of Las Cruces (Fiscal Agent)**

Mark Sutter, CPA, Ph.D.	Finance Director
Pat Degman, CGFM	Comptroller
Audrey Evins, CPA	Internal Auditor
Cynthia Vigil	Accounting Supervisor
Melissa Nelson	Accounting Supervisor
Sharon Thomas	Councillor

**REDW<sub>LLC</sub>**

Bruce Bleakman, CPA	Principal
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**Financial Statement Preparation**

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