



Rio Grande Natural Gas Association

Financial Statements and
Independent Auditors' Report
June 30, 2009 and 2008

REDW

Rio Grande Natural Gas Association

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Rio Grande Natural Gas Association
June 30, 2009

Board of Directors

The Board of Directors for the year ended June 30, 2009, none of whom are employed by the City of Las Cruces or the Village of Hatch are:

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

Independent Auditors' Report

Mr. Hector Balderas, New Mexico 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, 2009 and 2008. 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, 2009 and 2008, 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, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2009, on our consideration of 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 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 16, 2009

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2009

This section presents the discussion and analysis of the financial performance of Rio Grande Natural Gas Association (the "Association") for the fiscal years ended June 30, 2009 and 2008. 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.

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.

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.

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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 \$13,970,972 at June 30, 2009. Table 1 summarizes the net assets.

Table 1
Net Assets as of June 30,

	2009	2008	2007
Current assets	\$ 1,718,305	\$ 2,630,339	\$ 3,895,316
Restricted cash equivalents	1,923,866	1,896,883	1,887,776
Deferred charges	14,618	22,258	31,571
Capital assets, net	<u>14,638,638</u>	<u>14,674,118</u>	<u>13,969,601</u>
Total assets	<u>\$ 18,295,427</u>	<u>\$ 19,223,598</u>	<u>\$ 19,784,264</u>
Current liabilities	\$ 2,109,198	\$ 1,618,374	\$ 1,487,101
Long-term debt	<u>2,215,257</u>	<u>2,677,098</u>	<u>3,109,961</u>
Total liabilities	<u>4,324,455</u>	<u>4,295,472</u>	<u>4,597,062</u>
Net Assets			
Invested in capital assets, net of related debt	11,943,381	11,542,020	10,434,640
Restricted	1,923,866	1,896,883	1,887,776
Unrestricted	<u>103,725</u>	<u>1,489,223</u>	<u>2,864,786</u>
Total net assets	<u>13,970,972</u>	<u>14,928,126</u>	<u>15,187,202</u>
Total liabilities and net assets	<u>\$ 18,295,427</u>	<u>\$ 19,223,598</u>	<u>\$ 19,784,264</u>

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Changes in Net Assets. Total revenues and investment income for the year ended June 30, 2009, were \$10,313,559 compared with operating costs and interest of \$11,508,582. 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,

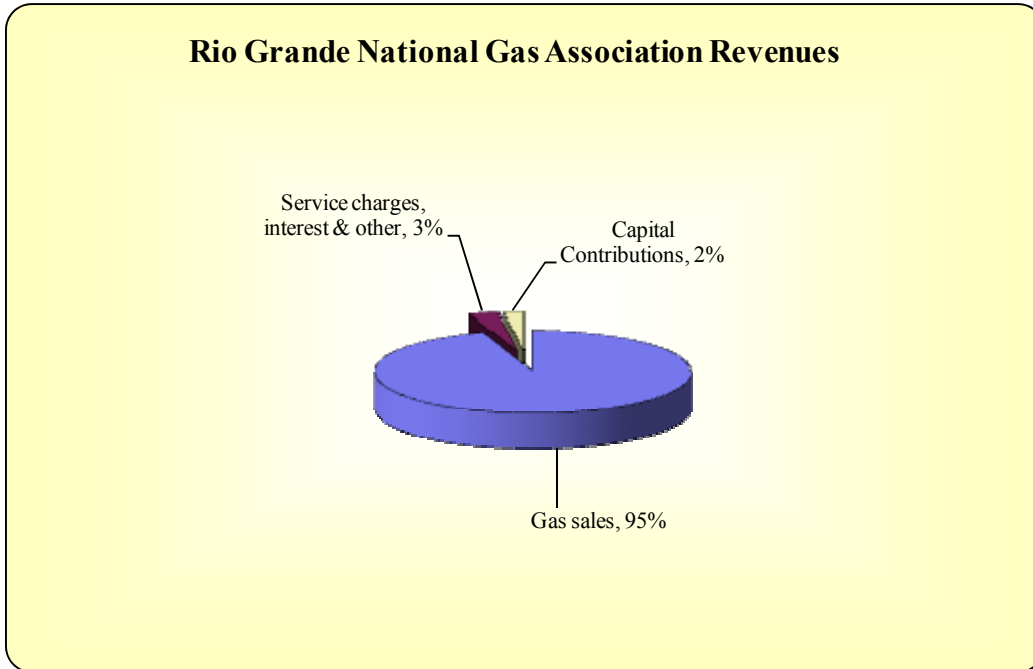
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 10,247,274	\$ 11,847,273	\$ 12,805,110
Operating costs and expenses	<u>11,336,327</u>	<u>12,586,496</u>	<u>12,543,299</u>
Operating income	<u>(1,089,053)</u>	<u>(739,223)</u>	<u>261,811</u>
Nonoperating revenues			
Investment income	66,285	161,238	278,265
Interest expense	(172,255)	(196,867)	(287,190)
Contributions from developers	<u>206,902</u>	<u>251,805</u>	<u>385,073</u>
Total nonoperating revenue (expenses)	<u>100,932</u>	<u>216,176</u>	<u>376,148</u>
Capital contributions	<u>30,967</u>	<u>263,971</u>	<u>724,851</u>
Change in net assets	(957,154)	(259,076)	1,362,810
Net assets, beginning of year	<u>14,928,126</u>	<u>15,187,202</u>	<u>13,824,392</u>
Net assets, end of year	<u>\$ 13,970,972</u>	<u>\$ 14,928,126</u>	<u>\$ 15,187,202</u>

For the year ended June 30, 2009, the Association's net assets decreased \$957,154 compared to a decrease of \$259,076 in 2008. Operating revenues were lower primarily due to a warm winter in 2008-2009, and lower gas prices during much of the year. Operating costs and expenses would have been lower had it not been for the customer service charges going from a fixed fee to the actual fee incurred. Investment income was lower due to the Association carrying a smaller cash balance in fiscal year 2009 and lower interest rates. Capital contributions are significantly lower due to the slowdown in growth in new housing developments.

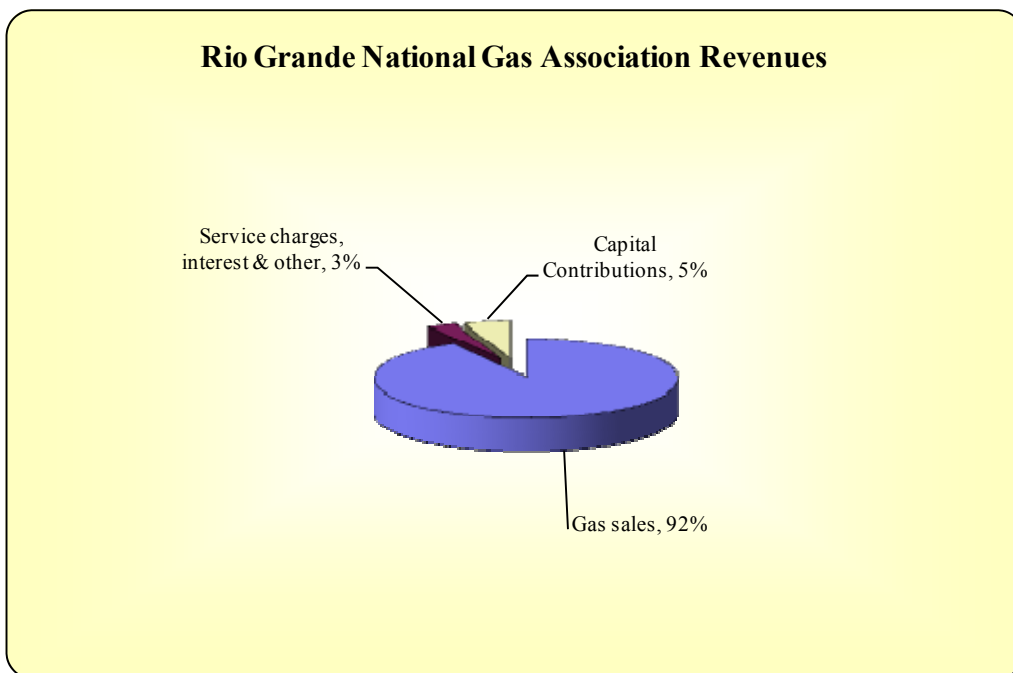
Rio Grande Natural Gas Association changed their estimate for the allowance for doubtful accounts in fiscal year 2008 due to rising gas prices and a slowdown in the economy. In fiscal years 2009 and 2008, the estimate includes the total of all account balances 90 days and older.

**Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2009**

**Chart 1
2009 Revenues by Source**



**Chart 2
2008 Revenues by Source**



Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Budgetary Information. The Board of Directors approves the annual budget and, when necessary, revisions to the budget. 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, 2009.

Table 3
Budget Variance
For the Year Ended June 30, 2009

	Budget		Actual	Variance	Percent Variance
	Original	Final			
Revenues					
Sale of natural gas, net of sales tax	\$ 18,734,036	\$ 10,923,715	\$ 10,032,844	\$ (890,871)	-8.2%
Provision for uncollectible accounts	(25,000)	(77,000)	(63,281)	13,719	-17.8%
Investment income	195,000	115,175	66,285	(48,890)	-42.4%
Other	171,782	171,782	277,711	105,929	61.7%
Total revenue	<u>19,075,818</u>	<u>11,133,672</u>	<u>10,313,559</u>	<u>(820,113)</u>	-7.4%
Expenses					
Cost of gas	14,855,428	7,096,542	6,554,000	542,542	7.6%
Operations	4,399,698	4,852,466	4,782,327	70,139	1.4%
Interest	146,842	172,640	172,255	385	0.2%
Total expenses	<u>19,401,968</u>	<u>12,121,648</u>	<u>11,508,582</u>	<u>613,066</u>	9.2%
Capital contribution/contributions from developers	319,023	219,023	237,869	18,846	8.6%
Net change in net assets	<u>\$ (7,127)</u>	<u>\$ (768,953)</u>	<u>\$ (957,154)</u>	<u>\$ (188,201)</u>	24.5%

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 the economy and lower gas prices during the year. The decrease from the original budget to the final budget for operating expenses is related to the additional charges for system operations and customer services. The increase from the original budget to the final budget for interest expense is related to an increase in the utility deposit and the related increase in interest on deposits.

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 the overall economy. Investment income was lower than budgeted due to lower rates of return. Other revenues are higher than budgeted due to an increase in service rates during the year.

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Long Term Debt

At the end of fiscal year 2009, the Association had total long-term debt of \$2,730,000 in revenue bonds. Table 4 shows the amount of long-term debt outstanding for each of the previous three years.

Table 4
Long-Term Debt as of June 30,

	2009	2008	2007
Revenue bonds	\$ 2,730,000	\$ 3,185,000	\$ 3,610,000

During the year, the Association acquired no new long term debt. Debt service payments decreased debt by \$455,000, \$425,000, and \$405,000 for fiscal years 2009, 2008, and 2007 respectively. Additional information on the Association's debt can be found in Note 5.

Capital Assets

As of June 30, 2009, the Association's capital assets totaled \$14,638,638, net of accumulated depreciation of 9,982,194. Table 5 provides details of the net capital assets:

Table 5
Capital Assets and
Accumulated Depreciation
June 30,

	2009	2008	2007
Gas utility system	\$ 23,802,575	\$ 23,057,656	\$ 21,969,464
Other	818,257	818,257	459,147
Capital assets, gross	24,620,832	23,875,913	22,428,611
Accumulated depreciation	(9,982,194)	(9,201,795)	(8,459,010)
Capital assets, net	\$ 14,638,638	\$ 14,674,118	\$ 13,969,601

During the fiscal year ended June 30, 2009, the Association additions to the distribution system included capital outlay of approximately \$630,371, of which \$30,967 was for contributions from developers. Additions to the transmission system cost approximately \$129,427. Transmission retirements for fiscal year ended June 30, 2009 were \$14,879. The overall increase in infrastructure was \$744,919.

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.

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2009

The regional area, while still faring better than the nation, has not been immune from the recession which started December 2007. Following is a table that contains a number of economic variables that clearly shows the mixed performance of the area during the last two fiscal years. The trends show growth only in population. The construction industry has shown a continued drop in fiscal year 2009 as reflected by the reduction in building permits issued.

Table 6
Las Cruces Economic Indicators
For the Years Ended June 30,

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

* Preliminary - Data for Metropolitan Statistical Area

** Census Bureau Estimates as of July 1

For fiscal year 2009/2010 the economic assumptions anticipate slow economic activity as the national economy begins to heal. The recent past has seen exceptional growth fueled by rapid construction activity centered around residential housing. This changed in fiscal year 2008 and fell further in fiscal year 2009. Single family permits fell by almost one fifth. Total valuation, while down, was buoyed in part by commercial activity. The outlook calls for overall construction activity to bottom out in 2009, striking a level that is more in balance with population growth. A countervailing factor is the ongoing construction of a number of public projects by the City of Las Cruces, Federal Government, and Las Cruces Public School district. These projects are scheduled to be completed by the end of fiscal year 2011.

Contacting the Financial Management

The financial report is designed to provide the community and others with a general overview of 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,

	2009	2008
Assets		
Current assets		
Pooled cash and investments	\$ 1,257,807	\$ 1,874,876
Trade accounts receivable, net of allowance for doubtful accounts of \$647,134 in 2009 and \$583,853 in 2008	426,534	714,795
Prepaid insurance	33,964	40,668
Total current assets	1,718,305	2,630,339
Restricted cash and investments		
Pooled cash - customer deposits	408,677	377,518
Bond and interest reserve fund	659,832	656,250
Gas system repairs and replacements fund	307,608	305,275
Bond interest and sinking fund	547,749	557,840
Total restricted cash equivalents	1,923,866	1,896,883
Deferred charges		
Bond issuance costs	14,618	22,258
Total deferred charges	14,618	22,258
Capital assets		
Gas plant in service	23,868,383	23,123,464
Gas plant acquisition adjustment	752,449	752,449
	24,620,832	23,875,913
Less accumulated depreciation and amortization	(9,982,194)	(9,201,795)
Net capital assets	14,638,638	14,674,118
Total assets	\$ 18,295,427	\$ 19,223,598

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

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

	2009	2008
Liabilities and Net Assets		
Current liabilities		
Current maturities of bonds payable	\$ 480,000	\$ 455,000
Accounts payable	1,118,982	661,617
Customer deposits	408,677	377,518
Accrued expenses		
Interest payable	65,421	75,090
Salaries and related benefits	5,383	4,350
Other	30,735	44,799
Total current liabilities	2,109,198	1,618,374
Long-term debt		
Bonds payable	2,250,000	2,730,000
Unamortized premium on bonds payable	1,908	2,905
Deferred gain on bond refunding	(36,651)	(55,807)
Total long-term debt	2,215,257	2,677,098
Total liabilities	4,324,455	4,295,472
Net Assets		
Invested in capital assets, net of related debt	11,943,381	11,542,020
Restricted	1,923,866	1,896,883
Unrestricted	103,725	1,489,223
Total net assets	13,970,972	14,928,126
Total liabilities and net assets	\$ 18,295,427	\$ 19,223,598

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,

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Sale of natural gas, net of sales tax	\$ 10,032,844	\$ 12,138,102
Provision for uncollectible accounts	<u>(63,281)</u>	<u>(468,795)</u>
Net operating sales	9,969,563	11,669,307
Other	<u>277,711</u>	<u>177,966</u>
Net operating revenues	<u>10,247,274</u>	<u>11,847,273</u>
Operating Costs and Expenses		
Cost of natural gas sold	6,554,000	8,775,798
Personnel	191,112	167,610
Customer service	926,181	395,000
Administrative charges	82,433	82,433
Purchased services-contractor	2,205,344	1,800,637
Other services	154,956	135,058
Permits/fees	324,035	337,551
Supplies	6,786	8,273
Insurance	49,398	65,402
Other	46,804	51,762
Depreciation and amortization	<u>795,278</u>	<u>766,972</u>
Total operating costs and expenses	<u>11,336,327</u>	<u>12,586,496</u>
Operating loss	<u>(1,089,053)</u>	<u>(739,223)</u>
Nonoperating Revenue (Expense)		
Investment income	66,285	161,238
Interest expense	(172,255)	(196,867)
Contributions from developers	<u>206,902</u>	<u>251,805</u>
Total nonoperating revenue (expense)	<u>100,932</u>	<u>216,176</u>
Capital contributions	<u>30,967</u>	<u>263,971</u>
Change in net assets	(957,154)	(259,076)
Net assets, beginning of year	<u>14,928,126</u>	<u>15,187,202</u>
Net assets, end of year	<u><u>\$ 13,970,972</u></u>	<u><u>\$ 14,928,126</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,

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Cash received from customers	\$ 10,440,132	\$ 11,310,048
Cash paid to employees	(204,143)	(162,363)
Cash paid to suppliers	<u>(9,751,666)</u>	<u>(10,680,670)</u>
Net cash provided by operating activities	<u>484,323</u>	<u>467,015</u>
Cash flows from investing activities		
Interest income received	<u>66,285</u>	<u>161,238</u>
Net cash provided by investing activities	<u>66,285</u>	<u>161,238</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(728,831)	(1,207,518)
Bond principal payments	(455,000)	(425,000)
Interest paid	<u>(163,765)</u>	<u>(183,549)</u>
Net cash used for capital and related financing activities	<u>(1,347,596)</u>	<u>(1,816,067)</u>
Cash flows from noncapital financing activities		
Contributions from developers	<u>206,902</u>	<u>251,803</u>
Net cash provided by noncapital financing activities	<u>206,902</u>	<u>251,803</u>
Net decrease in cash and cash equivalents	(590,086)	(936,011)
Cash and cash equivalents, beginning of year	<u>3,771,759</u>	<u>4,707,770</u>
Cash and cash equivalents, end of year	<u>\$ 3,181,673</u>	<u>\$ 3,771,759</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, 2009

	2009	2008
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (1,089,053)	\$ (739,223)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	795,278	766,972
Provision for uncollectible accounts	63,281	468,795
Amortization of deferred charges	7,640	9,313
Change in assets and liabilities		
Accounts receivable	224,980	(149,849)
Prepaid expenses	6,704	912
Accounts payable	457,365	107,104
Accrued expenses	(13,031)	5,247
Customer deposits	31,159	(2,256)
Total adjustments	1,573,376	1,206,238
Net cash provided by operating activities	\$ 484,323	\$ 467,015
Cash and investments at June 30 consist of		
Current assets		
Pooled cash and investments	\$ 1,257,807	\$ 1,874,876
Noncurrent assets		
Restricted cash and investments	1,923,866	1,896,883
Total cash and investments, June 30	\$ 3,181,673	\$ 3,771,759

Supplemental Disclosure

During the year ended June 30, 2009, the Association acquired \$30,967 of gas distribution systems from developers through noncash capital contributions.

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

Rio Grande Natural Gas Association

Notes to Financial Statements

June 30, 2009 and 2008

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 the 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, 2009 and 2008

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 Investments

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. Management has adopted a policy to establish a 100% allowance for all accounts over ninety days past due.

Capital Assets

Capital assets are long-lived non-financial 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, gas system repairs, and customer deposits.

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 purposes for which both restricted and unrestricted net assets are available. Restricted resources include customer deposits and the 1999 bond reserves.

Rio Grande Natural Gas Association

Notes to Financial Statements

June 30, 2009 and 2008

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, State of New Mexico Department of Finance and Administration approval must be obtained on budget increases and budget transfers between funds. 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 Investments

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 investments 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 investments consist of the following at June 30, 2009:

Equity in City of Las Cruces cash and investment pool	\$ 1,666,484
Restricted cash and investments - Association	
money market funds	<u>1,515,189</u>
Total cash and investments	<u>\$ 3,181,673</u>

Rio Grande Natural Gas Association

Notes to Financial Statements

June 30, 2009 and 2008

2) Cash and Investments — continued

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

	Pooled Cash & Investments	Association Accounts
Carrying amount of bank deposits	\$ (3,805,499)	\$ -
Investments	110,719,136	1,515,189
Accrued interest	313,562	-
Total cash and investments	<u>\$ 107,227,199</u>	<u>\$ 1,515,189</u>

Bank Balance of Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment ordinance requires collateralization of 50% of the uninsured portion of the City's deposits with financial institutions. Securities pledged by financial institutions are accepted at market value, except obligations of the state of New Mexico and its subdivisions, which are accepted at par value. As of June 30, 2009, the City's deposits, totaling \$375,766, was 100% insured by FDIC, and thus was not exposed to custodial credit risk.

Investments

The City's investment policy 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.

Rio Grande Natural Gas Association

Notes to Financial Statements

June 30, 2009 and 2008

2) Cash and Investments — continued

Investments — continued

As of June 30, 2009, the Association and the City of Las Cruces investment pool had the following investments:

Investment Type	Fair Value	Weighted Avg Maturity (Yrs)
Association money market funds	\$ 1,515,189	0.13
Pooled investments		
Money market funds	\$ 13,870,209	0.08
Commercial paper	6,986,440	0.19
U.S. agency discount notes	70,529,770	0.42
U.S. agency coupon bonds	3,014,700	1.81
Collateralized mortgage obligations	3,160,887	0.92
U.S. Treasury Notes	13,157,130	0.51
Total pooled investments	\$ 110,719,136	0.43

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

Credit Risk. The City's investment policy lists the criteria for selecting investments and the order of priority as follows: 1) safety; 2) liquidity; and 3) yield. As of June 30, 2009, the City's investments in the senior unsecured debt and short-term discount notes of U.S. agencies were rated AAA and A-1+, respectively, by Standard & Poor's and Aaa and P-1 by Moody's Investors Service. Mortgage-backed securities issued by U.S. agencies were rated AAA by Standard & Poor's and Aaa by Moody's. Positions in commercial paper were rated P-1 by Moody's and A-1 or A-1+ by Standard & Poor's. The City's money market fund investments were rated AAAM by Standard & Poor's and/or Aaa by Moody's.

Rio Grande Natural Gas Association

Notes to Financial Statements

June 30, 2009 and 2008

2) Cash and Investments — continued

Investments — continued

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

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities held in street name with a broker or dealer be insured, and that all other securities be held by the City or a third-party safekeeping financial institution acting as trustee for the City. As of June 30, 2009, all of the City's securities were held by a third-party financial institution in the City's name.

Concentration of Credit Risk. The City's formal investment policy places no limit on the amount the City may invest in any one issuer. As of June 30, 2009, 25% of the City's investment pool was in Federal Home Loan Bank (FHLB), 27% in Federal Home Loan Mortgage Corporation (FHLMC), and 17% in Federal National Mortgage Association (FNMA).

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 \$7,640 and \$9,314 for the years ended June 30, 2009 and 2008, respectively.

Rio Grande Natural Gas Association
Notes to Financial Statements
June 30, 2009 and 2008

4) Capital Assets

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

	June 30, 2008	Additions	Deletions	June 30, 2009
<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>
Other capital assets				
Intangible assets	49,230	-	-	49,230
Equipment	8,265	-	-	8,265
Transmission system	3,223,136	129,427	14,879	3,337,684
Distribution system	19,826,255	630,371	-	20,456,626
Gas plant adjustment	752,449	-	-	752,449
Total other capital assets at cost	<u>23,859,335</u>	<u>759,798</u>	<u>14,879</u>	<u>24,604,254</u>
Less accumulated depreciation/amortization for				
Intangible assets	18,265	1,397	-	19,662
Equipment	8,265	-	-	8,265
Transmission system	1,909,160	93,669	14,879	1,987,950
Distribution system	6,548,580	697,450	-	7,246,030
Gas plant adjustment	717,525	2,762	-	720,287
Total accumulated depreciation/ amortization	<u>9,201,795</u>	<u>795,278</u>	<u>14,879</u>	<u>9,982,194</u>
Total other capital assets at cost, net	<u>14,657,540</u>	<u>(35,480)</u>	<u>-</u>	<u>14,622,060</u>
Capital assets, net	<u>\$ 14,674,118</u>	<u>\$ (35,480)</u>	<u>\$ -</u>	<u>\$ 14,638,638</u>

Rio Grande Natural Gas Association
Notes to Financial Statements
June 30, 2009 and 2008

4) Capital Assets — continued

Capital assets activity for the Association for the year ended June 30, 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	1,207,518	16,611	1,373,895	19,826,255
Contributed capital	1,109,924	263,971	-	(1,373,895)	-
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>

Depreciation and amortization of capital assets was \$795,278 and \$766,972 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008

5) Bonds Payable

Bonds payable consist of the following at June 30:

	June 30, 2008	Increases	Decreases	June 30, 2009	Amount Due Within One Year
1999 Natural Gas System Revenue bonds	<u>\$ 3,185,000</u>	<u>\$ -</u>	<u>\$ 455,000</u>	<u>\$ 2,730,000</u>	<u>\$ 480,000</u>

	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>

Annual maturities on bonds payable are as follows:

Ending June 30	Principal	Interest	Total
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	<u>625,000</u>	<u>15,625</u>	<u>640,625</u>
	<u>\$ 2,730,000</u>	<u>\$ 353,893</u>	<u>\$ 3,083,893</u>

The interest rate on the 1999 Natural Gas System revenue bonds varies from 3.5% to 5% through 2013. As of June 30, 2009, the interest rate was 4.4%

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.

Rio Grande Natural Gas Association

Notes to Financial Statements

June 30, 2009 and 2008

5) Bonds Payable — continued

- (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.
- (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, 2009 and 2008, 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 fiscal year 2009 the Association did not comply with New Mexico state statutes requiring the Association's rates and charges to be a least sufficient to provide revenues to pay operation and maintenance expenses and interest and principal on its outstanding bonds. The Board of Directors approved rate increases effective fiscal year 2010. Rate increases and controlled spending are expected to bring the Association into compliance with the debt coverage requirement.

6) Employee Benefit Plans

Retirement Plan

All Association employees who work 20 or more hours a week participate in a defined benefit contributory retirement plan through the Public Employees Retirement Act of the State of New Mexico, a cost-sharing multiple employer public employee retirement system administered by the Public Employees Retirement Association (PERA). Benefit provisions are established and may only be amended by state statute. Information pertaining to the actuarially computed present value of vested accumulated plan benefits and nonvested accumulated plan benefits, the plan's net assets available for benefits and the assumed rate of return used in computing the present value, and ten-year historical trend information presenting PERA's progress in accumulating sufficient assets to pay benefits when due is not available by individual government agencies participating in the plan. Actuarial pension data for the State of New Mexico, as employer, is provided at the state-wide level in a separately issued audit report of PERA. The report may be obtained by writing to PERA, PO Box 2123, Santa Fe, NM 87504.

Rio Grande Natural Gas Association
Notes to Basic Financial Statements
June 30, 2009 and 2008

6) Employee Benefit Plans — continued

Retirement Plan — continued

Retirement Eligibility

Eligibility for receiving the monthly benefit equal to the number of years of credited service x 3.0% of their final average monthly salary, the 36 consecutive months of credited service producing the largest average, is as follows:

Employees may retire at: any age with 25 or more years of credited service; or age 60 or older with 20 or more years of credited service. All employees are eligible for retirement at: age 61 or older with 17 or more years of credited service; or age 62 or older with 14 or more years of credited service; or age 63 or older with 11 or more years of credited service; or age 64 or older with eight or more years of credited service; or age 65 or older with five or more years of credited service. Benefits vest after five years of credited service.

Disability Benefits

Members or vested former members with five or more years of credited service will receive their normal retirement pension based on credited service and final average salary at the time of disability or retirement. The five-year service requirement is waived if the disability is incurred in the line of duty. Disability retirements are subject to reevaluation until the disability-retired member reaches normal retirement. Payment of the disability pension is suspended for the balance statement of earnings from gainful employment by June 30th of each year or if the suspension of, or a decrease in, the Social Security Old Age Benefit for a 65 year old.

Funding Policy

The Association's employees are in the same plan as the City of Las Cruces which has chosen to enroll in a plan that requires the following contribution percentages:

	<u>Association</u>	<u>Employees</u>
All other contributing employees	11.65%	10.65%

For employees in the general municipal employees' plan, the City has chosen to pay a portion of the employees' 10.65% required contribution as an additional benefit. The Association follows the City's policy.

Rio Grande Natural Gas Association
Notes to Basic Financial Statements
June 30, 2009 and 2008

6) Employee Benefit Plans — continued

Retirement Plan — continued

Funding Policy — continued

Contribution requirements for the years ended are as follows:

	Association	Employee	Total	Percentage Contributed
June 30, 2007	\$ 28,430	\$ 13,417	\$ 41,847	100%
June 30, 2008	9,722	4,588	14,310	100%
June 30, 2009	18,060	8,523	26,583	100%

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

The payroll for the Association’s employees covered by PERA for the year ended June 30, 2009, was \$119,211; the total payroll of all employees of the Association was \$144,339.

Retiree Health Care Plan

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public services in New Mexico. The Retiree Health Care Authority (the “Authority”) is the administrator of the plan and determines required contributions under authority of the Act. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees.

Eligible employers include institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirement Act, Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act, or the Magistrate Retirement Act.

Rio Grande Natural Gas Association
Notes to Basic Financial Statements
June 30, 2009 and 2008

6) Employee Benefit Plans — continued

Retiree Health Care Plan — continued

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person’s behalf, unless that person retires before the employer’s NMRHCA effective date, in which event the time period for contributions becomes the time between the employer’s effective date and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990; and former legislators who served at least two years.

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

The Association has paid all of the employers’ required contributions, which were as follows:

2009	\$	1,550
2008		1,336
2007		839

Contributions from participating employers and participating employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer’s operation or participation in the Retiree Health Care Act. The employer, employee, and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd, NE, Suite 104, Albuquerque, New Mexico 87109.

Rio Grande Natural Gas Association

Notes to Basic Financial Statements

June 30, 2009 and 2008

7) 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 \$3,654,847 in 2009 and \$2,970,266 in 2008. Additionally, the Association had gas sales of \$469,258 and \$555,503 to the Village of Hatch during the years ended June 30, 2009 and 2008, respectively.

8) 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, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
Operating Revenues				
Sale of natural gas, net of sales tax	\$ 18,734,036	\$ 10,923,715	\$ 10,032,844	\$ (890,871)
Provision for uncollectible accounts	(25,000)	(77,000)	(63,281)	13,719
Net operating sales	18,709,036	10,846,715	9,969,563	(877,152)
Other	171,782	171,782	277,711	105,929
Net operating revenues	18,880,818	11,018,497	10,247,274	(771,223)
Operating Expenses				
Cost of natural gas sold	14,855,428	7,096,542	6,554,000	542,542
Personnel	219,008	214,530	191,112	23,418
Customer service	800,000	928,000	926,181	1,819
Administrative charges	82,433	82,433	82,433	-
Purchased services-contractor	1,805,000	2,207,000	2,205,344	1,656
Other services	168,706	169,206	154,956	14,250
Permits/fees	372,256	325,821	324,035	1,786
Supplies	13,500	8,820	6,786	2,034
Insurance	77,000	77,000	49,398	27,602
Other	56,550	56,050	46,804	9,246
Depreciation and amortization	805,245	783,606	795,278	(11,672)
Total operating costs and expenses	19,255,126	11,949,008	11,336,327	612,681
Operating loss	(374,308)	(930,511)	(1,089,053)	(158,542)
Nonoperating Revenue (Expense)				
Investment income	195,000	115,175	66,285	(48,890)
Interest expense	(146,842)	(172,640)	(172,255)	385
Contributions from developers	319,023	219,023	206,902	(12,121)
Total nonoperating revenue (expense)	367,181	161,558	100,932	(60,626)
Capital contributions	-	-	30,967	30,967
Change in net assets	(7,127)	(768,953)	(957,154)	(188,201)
Net assets, beginning of the year	14,928,126	14,928,126	14,928,126	-
Net assets, end of the year	\$ 14,920,999	\$ 14,159,173	\$ 13,970,972	\$ (188,201)

Rio Grande Natural Gas Association
Schedule of Pledged Collateral
For the Year Ended June 30, 2009

The Association participates in the City of Las Cruces cash and investment pool. The amounts reported below are for all deposit accounts maintained by the City.

Deposits

Institution/Security

No collateral was pledged as of June 30, 2009.

Summary of Insurance and Collateralization

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

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

Rio Grande Natural Gas Association
Schedule of Deposit Accounts and Investments
For the Year Ended June 30, 2009

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	Association Accounts	Total Reconciled Balance	On Deposit 6/30/2009
Deposit Accounts					
<i>Wells Fargo Bank</i>					
Community Development	Checking	\$ -	\$ -	\$ -	\$ 199,100
Community Development Home Rehab	Savings	-	-	-	20,716
Community Development Home Program	Savings	-	-	-	1,366
Metro Narcotics Agency	Savings	-	-	-	95,383
Treasury Fund - Operating	Checking	(3,468,113)	-	(3,468,113)	24,077
Payroll Direct Deposit Account	Checking	(57,135)	-	(57,135)	-
On Demand	Checking	30,562	-	30,562	35,124
Rio Grande Natural Gas Assoc Revenue Depository	Checking	(310,813)	-	(310,813)	-
		-	-	-	-
Total deposit accounts		<u>\$ (3,805,499)</u>	<u>\$ -</u>	<u>\$ (3,805,499)</u>	<u>\$ 375,766</u>
Investments					
<i>Wells Fargo Bank</i>					
Investment Custody Account	Investment	\$ 55,604	\$ -	\$ 55,604	
WF Treas Plus MM Fund - Sweep Acct	Sweep	4,005,243	-	4,005,243	
Rio Grande Gas Reserve Fund	Trust	-	659,832	659,832	
Rio Grande Gas Rep & Repl Fund	Trust	-	307,608	307,608	
Rio Grande Natl Gas 1999 Bond Fund	Trust	-	547,749	547,749	
<i>Wells Capital Management</i>					
CLC Liquidity Management Agency	Investment	97,328,966	-	97,328,966	
<i>Wells Fargo Brokerage Services, LLC</i>					
City of Las Cruces	Brokerage	6,372,223	-	6,372,223	
<i>State Treasurer New Mexigrow LGIP</i>					
Pooled Investments	Investment	2,957,100	-	2,957,100	
Total investments		<u>110,719,136</u>	<u>1,515,189</u>	<u>112,234,325</u>	
Total deposits and investments		106,913,637	1,515,189	108,428,826	
<i>Accrued Interest Receivable</i>					
Accrued Interest - Other Pooled Investments	Accrued Int	257	-	257	
Wells Capital Management - Pool	Accrued Int	313,305	-	313,305	
Total cash and investments		107,227,199	1,515,189	108,742,388	
Less balances in City of Las Cruces funds		<u>105,560,715</u>	<u>-</u>	<u>105,560,715</u>	
RGNGA Cash and Investment Balances		<u>\$ 1,666,484</u>	<u>\$ 1,515,189</u>	<u>\$ 3,181,673</u>	

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

Mr. Hector Balderas, New Mexico State Auditor and
The Board of Directors of 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, 2009 and 2008, and have issued our report thereon dated November 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 the 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 Association’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*.

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

The Association's response to the finding identified in our audit is described in the accompanying schedule of state auditor rule findings. We did not audit the Association's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, 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 16, 2009

Rio Grande Natural Gas Association
Schedule of State Auditor Rule Findings
For the Year Ended June 30, 2009

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

SA 09-1 — Rates and Charges

Condition: New Mexico state statutes require the Association's board of directors to establish rates and charges sufficient to pay operation and maintenance expenses and bond debt service while revenue bonds are outstanding. During 2009 revenue bonds were outstanding, but rates and charges did not generate sufficient revenues to cover these costs.

Criteria: New Mexico state statutes, §3-28-16 NMSA 1978.

Context: Operating and maintenance expenses and debt service costs exceeded revenue generated from rates and charges by approximately \$1.7 million during 2009.

Effect: The Association is not in compliance with §3-28-16 NMSA 1978.

Cause: Procedures were not in place to ensure rates and charges were sufficient to pay operation and maintenance expenses and bond debt service during 2009.

Auditors' Recommendations: Establish procedures to ensure rates and charges are consistent with §3-28-16 NMSA 1978.

Management's Response: The Association's board of directors has approved rate increases effective fiscal year 2010. The rate increases, with controlled spending, are expected to bring the Association into compliance with the state statute.

Rio Grande Natural Gas Association
Other Disclosures
For the Year Ended June 30, 2009

Exit Conference

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

RGNGA Board of Directors

Dolores Conner	Board Member
Miguel G. Silva	Board Member

RGNGA Administration

Arturo Tarango	Administrator
Rocio Gamboa	Management Analyst

City of Las Cruces (Fiscal Agent)

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

REDW LLC

Bruce Bleakman, CPA	Principal
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Financial Statement Preparation

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