



Rio Grande Natural Gas Association

Financial Statements and
Independent Auditors' Report
June 30, 2010 and 2009

REDW

Rio Grande Natural Gas Association

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Rio Grande Natural Gas Association
June 30, 2010

Board of Directors

The Board of Directors for the year ended June 30, 2010, none of whom are employed by the City of Las Cruces or the Village of Hatch are:

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

Independent Auditors' Report

Mr. Hector Balderas, State Auditor of New Mexico 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, 2010 and 2009. 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 previously present fairly, in all material respects, the financial position of the Rio Grande Natural Gas Association as of June 30, 2010 and 2009, 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, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8, the Rio Grande Natural Gas Association was reorganized effective July 6, 2010. In connection with the reorganization, certain utility system infrastructure and customers will be transferred to the City of Las Cruces (the "City"). After the reorganization the Village of Hatch appoints the Association's board of directors and the City no longer has an economic interest in the Association.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2010, 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 audits were 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 17, 2010

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2010

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, 2010 and 2009. 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. Basic financial statements.
3. Notes to the basic financial statements.
4. Supplementary information—Schedule of Revenues and Expenses—Budget and Actual.

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 noncapital. 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 schedules, including a comparison of the actual and budgetary expenses.

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Financial Analysis of Rio Grande Natural Gas Association

Net Assets—The Association's net assets increased to \$14,610,613 at June 30, 2010, from \$13,970,972 in fiscal year 2009. Table 1 summarizes net assets.

Table 1
Net Assets as of June 30,

	2010	2009	2008
Current assets	\$ 1,678,976	\$ 1,718,305	\$ 2,630,339
Restricted cash equivalents	1,931,550	1,923,866	1,896,883
Deferred charges	-	14,618	22,258
Capital assets, net	<u>14,301,227</u>	<u>14,638,638</u>	<u>14,674,118</u>
Total assets	<u>\$ 17,911,753</u>	<u>\$ 18,295,427</u>	<u>\$ 19,223,598</u>
Current liabilities	\$ 1,556,140	\$ 2,109,198	\$ 1,618,374
Long-term debt	<u>1,745,000</u>	<u>2,215,257</u>	<u>2,677,098</u>
Total liabilities	<u>3,301,140</u>	<u>4,324,455</u>	<u>4,295,472</u>
Net Assets			
Invested in capital assets, net of related debt	12,051,227	11,943,381	11,542,020
Restricted	1,931,550	1,923,866	1,896,883
Unrestricted	<u>627,836</u>	<u>103,725</u>	<u>1,489,223</u>
Total net assets	<u>14,610,613</u>	<u>13,970,972</u>	<u>14,928,126</u>
Total liabilities and net assets	<u>\$ 17,911,753</u>	<u>\$ 18,295,427</u>	<u>\$ 19,223,598</u>

Changes in Net Assets—Total operating revenues and investment income for the year ended June 30, 2010, were \$11,690,747 compared with operating costs and interest of \$11,291,819. Table 2 summarizes the changes in net assets for the year.

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2010

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 11,658,558	\$ 10,247,274	\$ 11,847,273
Operating costs and expenses	<u>11,120,060</u>	<u>11,336,327</u>	<u>12,586,496</u>
Operating income	<u>538,498</u>	<u>(1,089,053)</u>	<u>(739,223)</u>
Nonoperating revenues			
Investment income	32,189	66,285	161,238
Interest expense	(171,759)	(172,255)	(196,867)
Contributions from developers	<u>191,367</u>	<u>206,902</u>	<u>251,805</u>
Total nonoperating revenue (expenses)	<u>51,797</u>	<u>100,932</u>	<u>216,176</u>
Capital contributions	<u>49,346</u>	<u>30,967</u>	<u>263,971</u>
Change in net assets	639,641	(957,154)	(259,076)
Net assets, beginning of year	<u>13,970,972</u>	<u>14,928,126</u>	<u>15,187,202</u>
Net assets, end of year	<u>\$ 14,610,613</u>	<u>\$ 13,970,972</u>	<u>\$ 14,928,126</u>

For the year ended June 30, 2010, the Association's net assets increased \$639,641 compared to a decrease of \$957,154 in 2009. Operating revenues were higher primarily due to a colder winter in 2009-2010. Operating costs and expenses were lower because of prudent budgeting measures and fewer capital projects. Investment income was lower due to the Association carrying a smaller cash balance in fiscal year 2010 and declining interest rates. Capital contributions and contributions from developers in total were flat in 2010 due to a leveling in the housing market.

Rio Grande Natural Gas Association changed the 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 2010 and 2009, the estimate includes the total of all account balances 90 days and older.

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 for the year ended June 30, 2010.

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Table 3
Budgetary Comparison
For the Year Ended June 30, 2010

	Budget		Actual	Variance	Percent Variance
	Original	Final			
Revenues					
Sale of natural gas, net of sales tax	\$ 9,871,331	\$ 11,792,031	\$ 11,687,838	\$ (104,193)	-0.9%
Provision for uncollectible accounts	(104,302)	(104,302)	(227,714)	(123,412)	118.3%
Investment income	82,785	13,933	32,189	18,256	131.0%
Other	266,033	266,033	198,434	(67,599)	-25.4%
Total revenue	<u>10,115,847</u>	<u>11,967,695</u>	<u>11,690,747</u>	<u>(276,948)</u>	-2.3%
Expenses					
Cost of gas	6,038,785	6,995,756	6,936,933	58,823	0.8%
Operations	4,623,973	4,483,973	4,183,127	300,846	6.7%
Interest	145,842	126,000	171,759	(45,759)	-36.3%
Total expenses	<u>10,808,600</u>	<u>11,605,729</u>	<u>11,291,819</u>	<u>313,910</u>	-28.8%
Capital contribution and contribution from developers	245,400	245,400	240,713	(4,687)	-1.9%
Net change in net assets	<u>\$ (447,353)</u>	<u>\$ 607,366</u>	<u>\$ 639,641</u>	<u>\$ 32,275</u>	5.3%

The change from the original budget to the final budget in the sales of natural gas and the cost of gas is attributable to a colder winter and anticipated higher gas prices during the year. The decrease from the original budget to the final budget for investment income is due to lower earnings related to a declining cash balance and falling interest rates. The decrease from the original budget to the final budget for operating expenses is related to reduced operator fees. The decrease from the original budget to the final budget for interest expense is due to a change to the amortization schedule.

Actual sales of natural gas and the cost of gas are lower than budgeted amounts due to lower than planned gas prices in the spring. Investment income was higher than budgeted as the budget reflected a minimal amount of return on investments. Other revenues are lower than budgeted due to a reduced rate of growth in the number of customers.

Bonds Payable

At the end of fiscal year 2010, the Association had total long-term debt of \$2,250,000 which consists of revenue bonds. Table 4 shows of revenue bonds outstanding for the last three years.

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Table 4
Long-Term Debt as of June 30,

	2010	2009	2008
Revenue bonds	<u>\$ 2,250,000</u>	<u>\$ 2,730,000</u>	<u>\$ 3,185,000</u>

Debt service payments decreased debt by \$480,000, \$455,000, and \$425,000 for fiscal years 2010, 2009, and 2008, respectively. Additional information on the Association's debt can be found in Note 5.

Capital Assets

As of June 30, 2010, the Association's capital assets totaled \$14,301,227, net of accumulated depreciation of 10,776,327. Table 5 provides details of the net capital assets:

Table 5
Capital Assets and
Accumulated Depreciation
June 30,

	2010	2009	2008
Gas utility system	<u>\$ 24,259,297</u>	<u>\$ 23,802,575</u>	<u>\$ 23,057,656</u>
Other	<u>818,257</u>	<u>818,257</u>	<u>818,257</u>
Capital assets, gross	25,077,554	24,620,832	23,875,913
Accumulated depreciation	<u>(10,776,327)</u>	<u>(9,982,194)</u>	<u>(9,201,795)</u>
Capital assets, net	<u>\$ 14,301,227</u>	<u>\$ 14,638,638</u>	<u>\$ 14,674,118</u>

During the fiscal year ended June 30, 2010, the Association additions to the distribution system included capital outlay of approximately \$464,987, of which \$49,346 was contributions from developers. There were no additions to the transmission system in 2010. Equipment retirements for fiscal year ended June 30, 2010 were \$8,265. The overall increase in infrastructure was \$456,722.

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Economic Outlook

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

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

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

* Preliminary - Data for Metropolitan Statistical Area

** Census Bureau Estimates as of July 1

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

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Reorganization

The Village of Hatch and the City of Las Cruces adopted resolutions reorganizing the Association. The reorganized Association plans to sell the gas system to Zia Gas, and has signed a purchase agreement to that effect. The purchase agreement is before the Public Regulation Commission for approval. The allocation of the reorganized Association's assets and liabilities between the reorganized Association and the City will be finalized in fiscal year 2011. Additional information is provided in the notes to the financial statement under Subsequent Events.

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 President 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,

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 924,480	\$ 1,257,807
Accounts receivable, net of allowance for doubtful accounts of \$874,848 in 2010 and \$647,134 in 2009	722,068	426,534
Prepaid insurance	32,428	33,964
Total current assets	1,678,976	1,718,305
Restricted cash equivalents		
Pooled cash - customer deposits	407,768	408,677
Bond and interest reserve fund	656,250	659,832
Gas system repairs and replacements fund	307,624	307,608
Bond interest and sinking fund	559,908	547,749
Total restricted cash equivalents	1,931,550	1,923,866
Deferred charges		
Bond issuance costs	-	14,618
Total deferred charges	-	14,618
Capital assets		
Gas plant in service	24,325,105	23,868,383
Gas plant acquisition adjustment	752,449	752,449
	25,077,554	24,620,832
Less accumulated depreciation and amortization	(10,776,327)	(9,982,194)
Net capital assets	14,301,227	14,638,638
Total assets	\$ 17,911,753	\$ 18,295,427

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

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

	2010	2009
Liabilities and Net Assets		
Current liabilities		
Current maturities of bonds payable	\$ 505,000	\$ 480,000
Accounts payable	548,966	1,118,982
Customer deposits	407,768	408,677
Accrued expenses		
Interest payable	54,861	65,421
Salaries and related benefits	6,818	5,383
Other	32,727	30,735
Total current liabilities	1,556,140	2,109,198
Long-term debt		
Bonds payable	1,745,000	2,250,000
Unamortized premium on bonds payable	-	1,908
Deferred gain on bond refunding	-	(36,651)
Total long-term debt	1,745,000	2,215,257
Total liabilities	3,301,140	4,324,455
Net Assets		
Invested in capital assets, net of related debt	12,051,227	11,943,381
Restricted	1,931,550	1,923,866
Unrestricted	627,836	103,725
Total net assets	14,610,613	13,970,972
Total liabilities and net assets	\$ 17,911,753	\$ 18,295,427

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>2010</u>	<u>2009</u>
Operating Revenues		
Sale of natural gas	\$ 11,687,838	\$ 10,032,844
Provision for uncollectible accounts	<u>(227,714)</u>	<u>(63,281)</u>
Net operating sales	11,460,124	9,969,563
Other	<u>198,434</u>	<u>277,711</u>
Net operating revenues	<u>11,658,558</u>	<u>10,247,274</u>
Operating Costs and Expenses		
Cost of natural gas sold	6,936,933	6,554,000
Personnel	191,239	191,112
Customer service	810,587	926,181
Administrative charges	82,433	82,433
Purchased services-contractor	1,697,815	2,205,344
Other services	177,045	154,956
Permits/fees	318,591	324,035
Supplies	4,534	6,786
Insurance	57,300	49,398
Other	41,185	46,804
Depreciation and amortization	<u>802,398</u>	<u>795,278</u>
Total operating costs and expenses	<u>11,120,060</u>	<u>11,336,327</u>
Operating income (loss)	<u>538,498</u>	<u>(1,089,053)</u>
Other Income (Expense)		
Investment income	32,189	66,285
Interest expense	(171,759)	(172,255)
Contributions from developers	<u>191,367</u>	<u>206,902</u>
Total other income (expense)	<u>51,797</u>	<u>100,932</u>
Capital contributions	<u>49,346</u>	<u>30,967</u>
Change in net assets	639,641	(957,154)
Net assets, beginning of year	<u>13,970,972</u>	<u>14,928,126</u>
Net assets, end of year	<u><u>\$ 14,610,613</u></u>	<u><u>\$ 13,970,972</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,

	2010	2009
Cash flows from operating activities		
Cash received from customers	\$ 10,906,687	\$ 10,440,132
Cash paid to employees	(187,812)	(204,143)
Cash paid to suppliers	<u>(10,224,857)</u>	<u>(9,751,666)</u>
Net cash provided by operating activities	<u>494,018</u>	<u>484,323</u>
Cash flows from investing activities		
Interest income received	<u>32,189</u>	<u>66,285</u>
Net cash provided by investing activities	<u>32,189</u>	<u>66,285</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(415,641)	(728,831)
Bond principal payments	(480,000)	(455,000)
Interest paid	<u>(147,576)</u>	<u>(163,765)</u>
Net cash used for capital and related financing activities	<u>(1,043,217)</u>	<u>(1,347,596)</u>
Cash flows from noncapital financing activities		
Contributions from developers	<u>191,367</u>	<u>206,902</u>
Net cash provided by noncapital financing activities	<u>191,367</u>	<u>206,902</u>
Net decrease in cash and cash equivalents	(325,643)	(590,086)
Cash and cash equivalents, beginning of year	<u>3,181,673</u>	<u>3,771,759</u>
Cash and cash equivalents, end of year	<u>\$ 2,856,030</u>	<u>\$ 3,181,673</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,

	2010	2009
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 538,498	\$ (1,089,053)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	802,398	795,278
Provision for uncollectible accounts	227,714	63,281
Amortization of deferred charges	14,618	7,640
Change in assets and liabilities		
Accounts receivable	(523,248)	224,980
Prepaid expenses	1,536	6,704
Accounts payable	(570,016)	457,365
Accrued expenses	3,427	(13,031)
Customer deposits	(909)	31,159
Total adjustments	(44,480)	1,573,376
Net cash provided by operating activities	\$ 494,018	\$ 484,323
Cash and cash equivalents at June 30 consist of		
Cash and cash equivalents	\$ 924,480	\$ 1,257,807
Restricted cash and cash equivalents	1,931,550	1,923,866
Total cash and cash equivalents, June 30	\$ 2,856,030	\$ 3,181,673

Supplemental Disclosure

During the year ended June 30, 2010, the Association acquired \$49,346 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, 2010 and 2009

1) Summary of Significant Accounting Policies

Nature of Operations

The Rio Grande Natural Gas Association (“RGNGA” or 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.

The Association reports based on the applicable Government Accounting Standards Board (GASB) pronouncements and 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 with the principal activity of the Association. Nonoperating revenues and expenses result from ancillary activities.

Rio Grande Natural Gas Association

Notes to Financial Statements

June 30, 2010 and 2009

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

The Association participates in a pool of cash and investments with the Treasurer of the City of Las Cruces. All pooled cash and investments are fully insured or collateralized. Amounts are immediately available to the Association and are therefore considered 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 an allowance equal to the balance of 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 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

The Association maintains funds restricted for the repayment of the 1999 revenue bonds, gas system repairs, and customer deposits in a bank trust account.

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.

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

Rio Grande Natural Gas Association

Notes to Financial Statements

June 30, 2010 and 2009

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.

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's share of the City of Las Cruces cash and investment pool is immediately available for spending and is therefore considered a cash equivalent. 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 and 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 cash equivalents consist of the following at June 30, 2010:

City of Las Cruces cash and investment pool	\$ 1,332,248
Restricted cash and investments - money market funds	<u>1,523,782</u>
Total cash and cash equivalents	<u>\$ 2,856,030</u>

Cash and cash equivalents are presented as follows:

Cash and cash equivalents	\$ 924,480
Restricted cash equivalents	<u>1,931,550</u>
	<u>\$ 2,856,030</u>

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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	\$ 14,981,498	\$ -
Investments	90,359,170	1,523,782
Accrued interest	440,152	-
Total cash and investments	\$ 105,780,820	\$ 1,523,782

Deposits

Custodial Credit Risk. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment ordinance requires collateralization of 100% of the uninsured portion of the City's deposits with financial institutions. Securities pledged by financial institutions are accepted at market value, except obligations of the state of New Mexico and its subdivisions, which are accepted at par value. As of June 30, 2010, the City's bank deposits, totaling \$20,320,542, was insured by federal deposit insurance or collateralized by securities held in trust by a third-party bank for the depository bank in the City's name and thus was not exposed to custodial credit risk.

Investments

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

As of June 30, 2010, the 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	\$ 1,523,782	0.14
U.S. agency coupon bonds	\$ 90,359,170	0.53

Rio Grande Natural Gas Association

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Interest Rate Risk. The City manages exposure to declines in fair values by managing exposure to interest rate risk by purchasing investments with increasing coupon rates and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The investment pool includes step-up coupon securities that total \$90,359,170 issued by U.S. government agencies that are callable by the issuer under certain circumstances. The Telshor Facility fund and the Water and Wastewater funds have \$11,093,790 and \$3,310,591, respectively, of similar step-up agency securities. For purposes of calculating weighted average maturity, the City assumes callable securities will be called at the first call option, based on their interest rate, current market interest rate, and the City's recent experience with these securities being called at the first call date.

Credit Risk. The City's investment policy lists the criteria for selecting investments and the order of priority as follows: 1) safety; 2) liquidity; and 3) yield. As of June 30, 2010, the City's investments in coupon bonds of U.S. agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The City's money market fund investments were rated AAAM by Standard & Poor's and/or Aaa by Moody's. The external investment pools of the NM State Investment Council are not rated.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities held in street name with a broker or dealer be insured, and that all other securities be held by the City or a third-party safekeeping financial institution acting as trustee for the City. As of June 30, 2010, all of the City's securities are held in either the street name or by a third-party financial institution in the City's name.

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

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Notes to Financial Statements
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3) Capital Assets

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

	June 30, 2009	Additions	Deletions	June 30, 2010
<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	3,337,684	-	-	3,337,684
Distribution system	20,456,626	464,987	-	20,921,613
Gas plant adjustment	752,449	-	-	752,449
Total other capital assets at cost	<u>24,604,254</u>	<u>464,987</u>	<u>8,265</u>	<u>25,060,976</u>
Less accumulated depreciation/amortization for				
Intangible assets	19,662	1,397	-	21,059
Equipment	8,265	-	8,265	-
Transmission system	1,987,950	99,982	-	2,087,932
Distribution system	7,246,030	698,257	-	7,944,287
Gas plant adjustment	720,287	2,762	-	723,049
Total accumulated depreciation/ amortization	<u>9,982,194</u>	<u>802,398</u>	<u>8,265</u>	<u>10,776,327</u>
Total other capital assets at cost, net	<u>14,622,060</u>	<u>(337,411)</u>	<u>-</u>	<u>14,284,649</u>
Capital assets, net	<u>\$ 14,638,638</u>	<u>\$ (337,411)</u>	<u>\$ -</u>	<u>\$ 14,301,227</u>

Rio Grande Natural Gas Association
Notes to Financial Statements
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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>

Depreciation and amortization of capital assets was \$802,398 and \$795,278 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009

4) Bonds Payable

Bonds payable consist of the following at June 30:

	June 30, 2009	Increases	Decreases	June 30, 2010	Amount Due Within One Year
1999 Natural Gas System					
Revenue bonds	<u>\$ 2,730,000</u>	<u>\$ -</u>	<u>\$ 480,000</u>	<u>\$ 2,250,000</u>	<u>\$ 505,000</u>
	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>

Annual maturities on bonds payable are as follows:

Ending June 30	Principal	Interest	Total
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>\$ 2,250,000</u>	<u>\$ 233,611</u>	<u>\$ 2,483,611</u>

The interest rate on the 1999 Natural Gas System revenue bonds varies from 3.5% to 5% through 2014. As of June 30, 2010, the interest rate was 4.45%

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.

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June 30, 2010 and 2009

- (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, 2010 and 2009, 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 brought the Association into compliance with the debt coverage requirement in fiscal year 2010.

5) 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.

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

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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.

Contribution requirements for the years ended are as follows:

	Association	Employee	Total	Percentage Contributed
June 30, 2008	\$ 9,722	\$ 4,588	\$ 14,310	100%
June 30, 2009	\$ 18,060	\$ 8,523	\$ 26,583	100%
June 30, 2010	\$ 20,443	\$ 9,648	\$ 30,091	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, 2010, was \$134,939; the total payroll of all employees of the Association was \$139,809.

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June 30, 2010 and 2009

Retiree Health Care Plan

The New Mexico Retiree Health Care Act (“NMRHCA” or the “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.

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 NMRHCA’s 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 NMRHCA 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:

2010	\$	1,754
2009		1,550
2008		1,336

Contributions from participating employers and participating employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances,

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including termination of employment or termination of the participating employer's operation or participation in NMRHCA. 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.

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. Such expenditures include purchased services, shared services, and capital expenditures. The Association paid the City \$3,055,886 in 2010 and \$3,654,847 in 2009. Additionally, the Association had gas sales of \$492,385 and \$469,258 to the Village of Hatch during the years ended June 30, 2010 and 2009, 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.

8) Reorganization

In June 2008, a task force was appointed by the board of directors to develop and recommend alternatives for the future operation and management of the Association. Based on task force recommendations, in September 2009 the Association adopted a

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Notes to Financial Statements

June 30, 2010 and 2009

dissolution plan whereby the net assets of the Association would be distributed to its owners. Customers within Las Cruces city limits and certain other customers would continue to be served by the City using existing utility infrastructure, whereas the remaining customers would be served by a reorganized Association, as described in the following paragraph.

Effective July 6, 2010, the governing bodies of the Village of Hatch and the City of Las Cruces adopted resolutions reorganizing the Association. The Village remains an active member and has 100% ownership interest in the Association and is solely entitled to appoint all members of the new board of directors. The new board will have the sole power to act on behalf of the Association, with no further involvement by the City. The City remains a member to meet the statutory requirements of NMSA 1978, Section 3-28-1 (1993), but has no economic interest in the Association. The City continues to provide certain services to the reorganized Association in accordance with a Cooperative Services Agreement dated 1971 for up to one year from the date of the reorganization, and continues to serve as fiscal agent during this period.

The reorganization calls for approximately 6,900 customers to be transferred to the City. The net book value of the infrastructure assets related to the 6,900 customers will also be transferred to the City. Approximately 9,700 customers, and the net book value of the infrastructure assets related to the 9,700 customers, will remain with the reorganized Association.

The reorganized Association's board of directors signed a resolution on August 24, 2010, approving an agreement to sell certain utility system assets to Zia Natural Gas Company, a division of Natural Gas Processing Co., a Wyoming corporation operating as a regulated public utility in New Mexico. The proposed sale is subject to approval by the New Mexico Public Regulation Commission (PRC). The proposed sales price is \$9,000,000, adjusted downward for known customer deposits and accrued interest.

On July 1, 2010, the Association made the scheduled debt service principal payment of \$505,000 on the 1999 Revenue Refunding Bonds using restricted cash.

On September 1, 2010, the Association called and redeemed all outstanding 1999 Revenue Refunding Bonds. The Association used \$696,542 of operating cash and \$1,076,087 of restricted cash to redeem \$1,745,000 of outstanding principal and \$27,629 of accrued interest.

Decisions about continued operations of the Association are dependent on the outcome of the PRC approval process and the pending sale to Zia.

Supplementary Information

Rio Grande Natural Gas Association
Schedule of Revenues, Expenses and Changes in Net Assets
Budget and Actual (Audited)
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
Operating Revenues				
Sale of natural gas, net of sales tax	\$ 9,871,331	\$ 11,792,031	\$ 11,687,838	\$ (104,193)
Provision for uncollectible accounts	(104,302)	(104,302)	(227,714)	(123,412)
Net operating sales	9,767,029	11,687,729	11,460,124	(227,605)
Other	266,033	266,033	198,434	(67,599)
Net operating revenues	<u>10,033,062</u>	<u>11,953,762</u>	<u>11,658,558</u>	<u>(295,204)</u>
Operating Expenses				
Cost of natural gas sold	6,038,785	6,995,756	6,936,933	58,823
Personnel	199,998	199,209	191,239	7,970
Customer service	950,000	873,531	810,587	62,944
Administrative charges	82,433	82,433	82,433	-
Purchased services-contractor	1,950,000	1,862,500	1,697,815	164,685
Other services	169,406	203,506	177,045	26,461
Permits/fees	327,980	327,238	318,591	8,647
Supplies	14,000	14,000	4,534	9,466
Insurance	60,000	60,000	57,300	2,700
Other	56,550	47,950	41,185	6,765
Depreciation and amortization	<u>813,606</u>	<u>813,606</u>	<u>802,398</u>	<u>11,208</u>
Total operating costs and expenses	<u>10,662,758</u>	<u>11,479,729</u>	<u>11,120,060</u>	<u>359,669</u>
Operating gain	<u>(629,696)</u>	<u>474,033</u>	<u>538,498</u>	<u>64,465</u>
Other Income (Expense)				
Investment income	82,785	13,933	32,189	18,256
Interest expense	(145,842)	(126,000)	(171,759)	(45,759)
Total other income (expense)	<u>(63,057)</u>	<u>(112,067)</u>	<u>(139,570)</u>	<u>(27,503)</u>
Capital contributions and contributions from developers	<u>245,400</u>	<u>245,400</u>	<u>240,713</u>	<u>(4,687)</u>
Change in net assets	(447,353)	607,366	639,641	32,275
Net assets, beginning of the year	<u>13,970,972</u>	<u>13,970,972</u>	<u>13,970,972</u>	<u>-</u>
Net assets, end of the year	<u><u>\$ 13,523,619</u></u>	<u><u>\$ 14,578,338</u></u>	<u><u>\$ 14,610,613</u></u>	<u><u>\$ 32,275</u></u>

Rio Grande Natural Gas Association
Schedule of Pledged Collateral
For the Year Ended June 30, 2010

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

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

Summary of Collateralization

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

Rio Grande Natural Gas Association
Schedule of Deposit Accounts and Investments
For the Year Ended June 30, 2010

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	Type of Account	Pooled Cash & Investments	RGNGA Accounts	Total Reconciled Balance	On Deposit 6/30/2010
Deposit Accounts					
<i>Wells Fargo Bank</i>					
Community Development	Checking	\$ -	\$ -	\$ -	\$ 197,752
Community Development Home Rehab	Savings	-	-	-	40,739
Community Development Home Program	Savings	-	-	-	1,270
Metro Narcotics Agency	Savings	-	-	-	95,421
Treasury Fund - Operating	Checking	19,863,617	-	19,863,617	19,951,196
Payroll Direct Deposit Account	Checking	(27,647)	-	(27,647)	-
Accounts Payable	Checking	(2,240,671)	-	(2,240,671)	-
Electronic	Checking	(3,537,060)	-	(3,537,060)	-
Credit Card	Checking	858	-	858	-
On Demand	Checking	34,164	-	34,164	34,164
Rio Grande Natural Gas Assoc Revenue	Checking	(358,107)	-	(358,107)	-
Depository	Checking	1,246,344	-	1,246,344	-
Total deposit accounts		<u>14,981,498</u>	<u>-</u>	<u>14,981,498</u>	<u>\$ 20,320,542</u>
Investments					
<i>Wells Fargo Bank</i>					
Rio Grande Gas Reserve Fund	Mutual fund	-	656,250	656,250	
Rio Grande Gas Rep & Repl Fund	Mutual fund	-	307,624	307,624	
Rio Grande Natl Gas 1999 Bond Fund	Mutual fund	-	559,908	559,908	
<i>Wells Fargo Brokerage Services, LLC</i>					
FNMA	Investment	10,048,450	-	10,048,450	
<i>First Tennessee</i>					
FHLB	Investment	2,005,000	-	2,005,000	
FHLMC	Investment	33,278,450	-	33,278,450	
FNMA	Investment	20,911,410	-	20,911,410	
<i>Morgan Keegan</i>					
FHLMC	Investment	15,071,100	-	15,071,100	
FNMA	Investment	9,044,760	-	9,044,760	
<i>State Treasurer New Mexigrow LGIP</i>					
New Mexico State Treasurer LGIP	Investment	-	-	-	
Total investments		<u>90,359,170</u>	<u>1,523,782</u>	<u>91,882,952</u>	
Total deposits and investments		105,340,668	1,523,782	106,864,450	
<i>Other Cash:</i>					
Petty Cash & Change Funds		-	-	-	
<i>Accrued Interest Receivable</i>					
Accrued Interest – Pooled Investments		440,152	-	440,152	
Total cash and investments		<u>105,780,820</u>	<u>1,523,782</u>	<u>107,304,602</u>	
Less balances in City of Las Cruces funds		<u>104,448,572</u>	<u>-</u>	<u>104,448,572</u>	
RGNGA cash and cash equivalents		<u>\$ 1,332,248</u>	<u>\$ 1,523,782</u>	<u>\$ 2,856,030</u>	

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

Mr. Hector Balderas, State Auditor of New Mexico and
The Board of Directors of Rio Grande Natural Gas Association

We have audited the accompanying basic financial statements and budgetary comparison schedule of the Rio Grande Natural Gas Association (the “Association”) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated November 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Association’s financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 17, 2010

Rio Grande Natural Gas Association
Schedule of Findings and Responses
For the Year Ended June 30, 2010

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

Rio Grande Natural Gas Association
Schedule of Prior State Auditor Rule Findings
For the Year Ended June 30, 2010

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

Current Status: The Association's board of directors approved rate increases in fiscal year 2010. The rate increases, along with controlled spending, brought the Association into compliance with the state statute in fiscal year 2010.

Rio Grande Natural Gas Association
Other Disclosures
For the Year Ended June 30, 2010

Exit Conference

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

RGNGA Board of Directors

Dolores Connor	Board Member
Gil Sorg	Board Member
Thomas Halsell	Secretary

RGNGA Administration

Arturo Tarango	Administrator
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City of Las Cruces (Fiscal Agent)

Pat Degman, CGFM	Interim Finance Director
Audrey Evins, CPA	Interim Comptroller
Carlos Lobato, CIA, CISA	Interim Internal Audit Manager
Melissa Nelson	Accounting Supervisor
Karin DeVogel	Interim Accounting Supervisor

REDW LLC

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

Financial Statement Preparation

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