Rio Grande Natural Gas Association

Financial Statements
and
Independent Auditors' Report

June 30, 2011 and 2010

REDW LLC
CPAs | Business & Financial Advisors

Rio Grande Natural Gas Association

Table of Contents

Rio Grande Natural Gas Association
June 30, 2011

Board of Directors

The Board of Directors for the year ended June 30, 2011, none of whom are employed by the City of Las Cruces or the Village of Hatch is:

Mr. Andrew Nuñez	President
Mr. David Sment	Vice-President
Mr. Thomas Halsell	Secretary
Mr. Judd Nordyke	Board Member
Mr. Robert E. Torres	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, 2011 and 2010. 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, 2011 and 2010, 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, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, 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.

ALBUQUERQUE
7425 Jefferson St NE, Albuquerque, NM 87109
P: 505.998.3200 F: 505.998.3333

redw.com

PHOENIX
3333 E Camelback Rd, Suite 253, Phoenix, AZ 85018
P: 602.840.4551 F: 602.840.6065

In accordance with *Government Auditing Standards,* we have also issued our report dated November 22, 2011, 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 22, 2011

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

This section presents the discussion and analysis of the financial performance of Rio Grande Natural Gas Association (the "Association" or "RGNGA") for the fiscal years ended June 30, 2011 and 2010. It is intended to be read in conjunction with the financial statements, which follow this section.

Reorganization

Rio Grande Natural Gas Association is a nonprofit corporation that provides inter-community natural gas and services to residents of Las Cruces, Hatch, and Dona Ana County. Prior to fiscal year 2011, the Association was jointly owned by the City of Las Cruces and the Village of Hatch, New Mexico. During June and July 2010, the Village of Hatch Commissioners and the Las Cruces City Council mutually agreed to the reorganization of the Association. Each government approved a resolution for reorganization. On July 27, 2010, the Association Board approved a similar resolution for reorganization.

The reorganization called for a division of the customers and the gas distribution system. According to the approved plan, the City of Las Cruces acquired the customers and gas distribution system that were within the city limits. The Village of Hatch retained all other customers and infrastructure. The City continued as a statutory member of the Association, but without the rights of ownership in the restructured organization. The City of Las Cruces ceased to serve as the fiscal agent for RGNGA on June 30, 2011, and the Village of Hatch became its fiscal agent.

Sale of the Gas System

The Village of Hatch, as sole owner of RGNGA, entered into a purchase contract with Zia Natural Gas Company, allowing Zia to acquire the Association's gas distribution system within Dona Ana County and to obtain the right to provide gas service to the customers that the Village of Hatch had retained. The purchase agreement was presented by Zia Gas to the New Mexico Public Regulation Commission, and following due process procedures, the purchase was approved on March 19, 2011. The sale of the infrastructure assets closed on March 24, 2011.

Additional information on the reorganization and sale of the gas system is provided in the notes to the financial statements.

Rio Grande Natural Gas Association

Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

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 financial statements are presented using proprietary fund accounting and, therefore, record revenues when earned and expenses when incurred.

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 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.

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 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 Years Ended June 30, 2011 and 2010

Financial Analysis of Rio Grande Natural Gas Association

Net Assets—The Association's net assets decreased to $10,201,238 at June 30, 2011, from $14,610,613 in fiscal year 2010. Table 1 summarizes net assets.

Table 1
Net Assets as of June 30,

	2011	2010	2009
Assets			
Current assets	**$ 10,207,661**	$ 1,678,976	$ 1,718,305
Restricted cash equivalents	**-**	1,931,550	1,923,866
Deferred charges	**-**	-	14,618
Capital assets, net	**-**	14,301,227	14,638,638
Total assets	**$ 10,207,661**	$ 17,911,753	$ 18,295,427
Liabilities			
Current liabilities	**$ 6,423**	$ 1,556,140	$ 2,109,198
Long-term debt	**-**	1,745,000	2,215,257
Total liabilities	**6,423**	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	**10,201,238**	627,836	103,725
Total net assets	**10,201,238**	14,610,613	13,970,972
Total liabilities and net assets	**$ 10,207,661**	$ 17,911,753	$ 18,295,427

During fiscal year 2011, the Association contributed a portion of its capital assets to the City of Las Cruces, sold the remaining capital assets, and retired its long-term debt, all in connection with a reorganization described in Note 1 to the financial statements.

Rio Grande Natural Gas Association

Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

Changes in Net Assets—Total operating revenues and investment income for the year ended June 30, 2011, were $6,742,465 compared with operating costs and interest of $11,690,747 in 2010. Table 2 summarizes the changes in net assets for the year.

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

	2011	2010	2009
Operating revenues	**$ 6,729,329**	$ 11,658,558	$ 10,247,274
Operating costs and expenses	**6,352,299**	11,120,060	11,336,327
Operating income	**377,030**	538,498	(1,089,053)
Nonoperating revenues			
Investment income	**13,136**	32,189	66,285
Interest expense	**(32,248)**	(171,759)	(172,255)
Contributions from developers	**55,046**	191,367	206,902
Transfer of capital assets	**(4,052,909)**	-	-
Loss on sale of capital assets	**(769,430)**	-	-
Capital contributions	**-**	49,346	30,967
Total nonoperating revenues (expenses)	**(4,786,405)**	101,143	131,899
Change in net assets	**(4,409,375)**	639,641	(957,154)
Net assets, beginning of year	**14,610,613**	13,970,972	14,928,126
Net assets, end of year	**$ 10,201,238**	$ 14,610,613	$ 13,970,972

For the year ended June 30, 2011, the Association's net assets decreased $4,409,375 compared to an increase of $639,641 in 2010. Operating revenues were lower due to the reorganization and subsequent sale of the utility system. Operating costs and expenses were also lower because of the related reduction in operating costs and a halt in capital project activity. Investment income was lower due to the Association carrying a smaller cash balance for the majority of fiscal year 2011 and declining interest rates. Interest expense declined sharply due to the early retirement of the bonds. Contributions from developers declined in fiscal year 2011 due to a continued slowdown in the housing market. The loss on the sale of capital assets resulted from the Association's reorganization and related sale of the gas system infrastructure to Zia Natural Gas.

Rio Grande Natural Gas Association

Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

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, 2011.

Table 3
Budgetary Comparison
For the Year Ended June 30, 2011

	Budget				Percent
	Original	Final	**Actual**	Variance	Variance
Revenues					
Sale of natural gas, net of sales tax	$ 12,246,912	$ 6,700,000	**$ 6,652,522**	$ (47,478)	-0.7%
Provision for uncollectible accounts	(122,469)	(122,469)	**(136,144)**	(13,675)	11.2%
Investment income	15,000	7,604	**13,136**	5,532	72.8%
Other	268,053	198,529	**212,951**	14,422	7.3%
Total revenue	12,407,496	6,783,664	**6,742,465**	(41,199)	-0.6%
Expenses					
Cost of gas	7,662,299	3,600,000	**3,537,290**	62,710	1.7%
Operations	4,341,369	3,143,117	**2,815,009**	328,108	10.4%
Interest	103,250	32,430	**32,248**	182	0.6%
Total expenses	12,106,918	6,775,547	**6,384,547**	391,000	12.7%
Transfer of capital assets	-	(4,052,909)	**(4,052,909)**	-	0.0%
Loss on sale of capital assets	-	(769,430)	**(769,430)**	-	0.0%
Capital contribution and contribution from developers	276,210	56,000	**55,046**	(954)	-1.7%
Net change in net assets	$ 576,788	$ (4,758,222)	**$ (4,409,375)**	$ 348,847	-7.3%

The change from the original budget to the final budget in the sales of natural gas and the cost of gas is attributable to the reduction in sales due to the reorganization and sale of the system. The decrease from the original budget to the final budget for investment income is due to lower earnings related to a declining cash balances. 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 the redemption of the bonds.

Actual sales of natural gas and the cost of gas are close to budgeted amounts. The provision for uncollectible accounts is higher than budgeted amounts due to the decrease in utility payments after the sale of the gas system to Zia. Investment income was higher than budgeted due to interest income on system sales proceeds. Other revenues are higher than budgeted due to revenue from transferring customer deposits and related interest to the City as part of the reorganization.

Bonds Payable

At the end of fiscal year 2011, the Association had no long-term debt outstanding. The revenue bonds were called on September 1, 2010, and the aggregate principal amount of $1,745,000 was redeemed. Table 4 shows of revenue bonds outstanding for the last three years.

Table 4
Long-Term Debt as of June 30,

	2011	2010	2009
Revenue bonds	**$ -**	$ 2,250,000	$ 2,730,000

Debt service payments decreased debt by $505,000, $480,000, and $455,000, for fiscal years 2011, 2010, and 2009, respectively. Additional information on the Association's debt can be found in Note 4.

Capital Assets

As of June 30, 2011, the Association had no capital assets. Tables 5 and 6 provide details of the net capital assets:

Table 5
Capital Assets and
Accumulated Depreciation
June 30,

	2011	2010	2009
Gas utility system	**$ -**	$ 24,259,297	$ 23,802,575
Other	-	818,257	818,257
Capital assets, gross	-	25,077,554	24,620,832
Accumulated depreciation	-	(10,776,327)	(9,982,194)
Capital assets, net	**$ -**	$ 14,301,227	$ 14,638,638

Rio Grande Natural Gas Association
Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

Table 6
Changes in Net Capital Assets
For the Year Ended June 30,

	2011	2010	2009
Beginning of year capital assets, net	**$ 14,301,227**	$ 14,638,638	$ 14,674,118
Purchases	**119,504**	415,641	728,831
Contributed assets	**-**	49,346	30,967
Book value of assets sold	**(9,769,430)**	-	-
Book value of assets transferred to the City of Las Cruces	**(4,052,909)**	-	-
Depreciation	**(598,392)**	(802,398)	(795,278)
Increase (decrease) in net capital assets	**(14,301,227)**	(337,411)	(35,480)
End of year capital assets, net	**$ -**	$ 14,301,227	$ 14,638,638

During the fiscal year ended June 30, 2011, the Association disposed of all capital assets. The City of Las Cruces acquired assets with a net book value of $4,052,909 through the reorganization agreement. This amount was recorded as a transfer of capital assets. The remaining infrastructure assets, with a net book value of $9,769,430, were sold to Zia Natural Gas Company for $9,000,000. The loss on the sale of capital assets was $769,430. Details are shown in Table 6.

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. Questions about this report or requests for additional information may be addressed to the Board Chair at:

Rio Grande Natural Gas Association Board
c/o Village of Hatch
P.O. Box 220
Hatch, NM 87937

Financial Statements

Rio Grande Natural Gas Association

Statements of Net Assets

June 30,

		2011		2010
Assets				
Current assets				
Cash and cash equivalents	$	**10,096,070**	$	924,480
Accounts receivable, net of allowance for doubtful accounts of $626,551 in 2011 and $874,848 in 2010		**111,591**		722,068
Prepaid insurance		**-**		32,428
Total current assets		**10,207,661**		1,678,976
Restricted cash equivalents				
Pooled cash - customer deposits		**-**		407,768
Bond and interest reserve fund		**-**		656,250
Gas system repairs and replacement fund		**-**		307,624
Bond interest and sinking fund		**-**		559,908
Total restricted cash equivalents		**-**		1,931,550
Capital assets				
Gas plant in service		**-**		24,325,105
Gas plant acquisition adjustment		**-**		752,449
		-		25,077,554
Less accumulated depreciation and amortization		**-**		(10,776,327)
Net capital assets		**-**		14,301,227
Total assets	**$**	**10,207,661**	$	17,911,753

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

Rio Grande Natural Gas Association

Statements of Net Assets — continued

June 30,

	2011	2010
Liabilities and Net Assets		
Current liabilities		
Current maturities of bonds payable	**$ -**	$ 505,000
Accounts payable	**1,715**	548,966
Customer deposits	**-**	407,768
Accrued expenses		
Interest payable	**-**	54,861
Salaries and related benefits	**4,708**	6,818
Other	**-**	32,727
Total current liabilities	**6,423**	1,556,140
Long-term debt		
Bonds payable	**-**	1,745,000
Total liabilities	**6,423**	3,301,140
Net Assets		
Invested in capital assets, net of related debt	**-**	12,051,227
Restricted	**-**	1,931,550
Unrestricted	**10,201,238**	627,836
Total net assets	**10,201,238**	14,610,613
Total liabilities and net assets	**$ 10,207,661**	$ 17,911,753

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,

	2011	2010
Operating Revenues		
Sale of natural gas	**$ 6,652,522**	$ 11,687,838
Provision for uncollectible accounts	**(136,144)**	(227,714)
Net operating sales	**6,516,378**	11,460,124
Other	**212,951**	198,434
Net operating revenues	**6,729,329**	11,658,558
Operating Costs and Expenses		
Cost of natural gas sold	**3,537,290**	6,936,933
Personnel	**170,087**	191,239
Customer service	**595,810**	810,587
Administrative charges	**50,778**	82,433
Purchased services-contractor	**965,355**	1,697,815
Other services	**155,407**	177,045
Permits/fees	**197,690**	318,591
Supplies	**4,278**	4,534
Insurance	**49,887**	57,300
Other	**27,325**	41,185
Depreciation and amortization	**598,392**	802,398
Total operating costs and expenses	**6,352,299**	11,120,060
Operating income	**377,030**	538,498
Nonoperating Revenues (Expenses)		
Investment income	**13,136**	32,189
Interest expense	**(32,248)**	(171,759)
Contributions from developers	**55,046**	191,367
Transfer of capital assets	**(4,052,909)**	-
Loss on sale of capital assets	**(769,430)**	-
Capital contributions	**-**	49,346
Total nonoperating revenues (expenses)	**(4,786,405)**	101,143
Change in net assets	**(4,409,375)**	639,641
Net assets, beginning of year	**14,610,613**	13,970,972
Net assets, end of year	**$ 10,201,238**	$ 14,610,613

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,

	2011	2010
Cash flows from operating activities		
Cash received from customers	**$ 7,044,221**	$ 10,906,687
Cash paid to employees	**(204,924)**	(187,812)
Cash paid to suppliers	**(6,210,826)**	(10,224,857)
Net cash provided by operating activities	**628,471**	494,018
Cash flows from investing activities		
Interest income received	**13,136**	32,189
Net cash provided by investing activities	**13,136**	32,189
Cash flows from capital and related financing activities		
Sale of capital assets	**9,000,000**	-
Acquisition of capital assets	**(119,504)**	(415,641)
Bond principal payments	**(2,250,000)**	(480,000)
Interest paid	**(87,109)**	(147,576)
Net cash provided by capital and related financing activities	**6,543,387**	(1,043,217)
Cash flows from noncapital financing activities		
Contributions from developers	**55,046**	191,367
Net cash provided by noncapital financing activities	**55,046**	191,367
Net decrease in cash and cash equivalents	**7,240,040**	(325,643)
Cash and cash equivalents, beginning of year	**2,856,030**	3,181,673
Cash and cash equivalents, end of year	**$ 10,096,070**	$ 2,856,030

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,

	2011	2010
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	**$ 377,030**	$ 538,498
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	**598,392**	802,398
Provision for uncollectible accounts	**136,144**	227,714
Amortization of deferred charges	**-**	14,618
Change in assets and liabilities		
Accounts receivable	**474,333**	(523,248)
Prepaid expenses	**32,428**	1,536
Accounts payable	**(547,251)**	(570,016)
Accrued expenses	**(34,837)**	3,427
Customer deposits	**(407,768)**	(909)
Total adjustments	**251,441**	(44,480)
Net cash provided by operating activities	**$ 628,471**	$ 494,018
Cash and cash equivalents at June 30 consist of		
Cash and cash equivalents	**$ 10,096,070**	$ 924,480
Restricted cash and cash equivalents	**-**	1,931,550
Total cash and cash equivalents, June 30	**$ 10,096,070**	$ 2,856,030

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, 2011 and 2010

1) Summary of Significant Accounting Policies

Nature of Operations

The Rio Grande Natural Gas Association (the "Association" or "RGNGA") was formed as a community gas association to service 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 was 100 years, and upon dissolution the assets of the Association belonged to the City and the Village. The Association was 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.

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 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 has 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 continued to provide certain services to the reorganized Association in accordance with a Cooperative Services Agreement until April 1, 2011 and continued to serve as fiscal agent through June 30, 2011.

The reorganization transferred approximately 6,900 customers to the City. The net book value of the capital assets related to the 6,900 customers was $4,052,909, which were transferred to the City. Approximately 9,700 customers, and the net book value of $9,769,430 of the remaining capital assets related to the 9,700 customers, remained with the reorganized Association.

The reorganized Association's board of directors signed a resolution on August 24, 2010, approving an agreement to sell capital assets that were not transferred to the City 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 sale was approved, not subject to appeals, by the New Mexico Public Regulation Commission (PRC) on March 19, 2011. The sales price was $9,000,000 adjusted for customer deposits and accrued interest of $171,618 that was transferred to Zia Natural Gas on June 15, 2011.

Fiscal Agent

The City of Las Cruces served as the fiscal agent for the Association until June 30, 2011. As fiscal agent, the City established 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. The Village of Hatch became the fiscal agent effective July 1, 2011.

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.

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 Treasurers of the City of Las Cruces and the Village of Hatch. The City retained the operating cash while the Village of Hatch received the proceeds of the sale as previously described. All pooled cash and investments at the City and the Village 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 120 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.

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.

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.

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 participated 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 cash held by the Village of Hatch was invested in a money market account.

Cash and cash equivalents consist of the following at June 30, 2011:

City of Las Cruces cash and investment pool	$ 8,561
RGNGA money market account held by Village of Hatch	10,087,509
Total cash and cash equivalents	$ 10,096,070

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	$ 19,495,666	$ -
Investments	108,749,340	10,087,509
Accrued interest	709,515	-
Total cash and investments	$ 128,954,521	$ 10,087,509

Bank Balance of Deposits
Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment ordinance requires collateralization of 100% of the uninsured portion of the City's deposits with financial institutions. Securities pledged by financial institutions are accepted at market value, except obligations of the state of New Mexico and its subdivisions, which are accepted at par value. As of June 30, 2011, the City's deposits, totaling $34,439,745, was insured by FDIC or collateralized by securities held in trust by a third-party bank for the depository bank in the City's name and thus was not exposed to custodial credit risk.

<u>Investments</u>
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, 2011, the investment pools of the Association and the City of Las Cruces were invested in money market mutual funds and short-term U.S. agency bonds.

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment pool includes step-up coupon securities that total $108,749,340 issued by U.S. government agencies that are callable by the issuer under certain circumstances. For purposes of calculating weighted average maturity, the City assumes callable securities will be called at the first call option, based on their interest rate, current market interest rate and the City's recent experience with these securities being called at the first call date.

Credit Risk. The City's investment policy lists the criteria for selecting investments and the order of priority as follows: 1) safety; 2) liquidity; and 3) yield. As of June 30, 2011, 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.

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, 2011, 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, 2011, 37% of the City's investment pool was in Federal Home Loan Mortgage Corporation (FHLMC), 53% in Fannie Mae (FNMA) and 10% in Federal Home Loan Bank (FHLB).

3) Capital Assets

Capital assets activity for the Association for the year ended June 30, 2011, was as follows:

	June 30, 2010	Additions	Deletions	June 30, 2011
Capital assets not being depreciated				
Land and easements	$ 16,578	$ -	$ 16,578	$ -
Total capital assets not being depreciated	16,578	-	16,578	-
Other capital assets				
Intangible assets	49,230	-	49,230	-
Transmission system	3,337,684	-	3,337,684	-
Distribution system	20,921,613	119,504	21,041,117	-
Gas plant adjustment	752,449	-	752,449	-
Total other capital assets at cost	25,060,976	119,504	25,180,480	-
Less accumulated depreciation/amortization for				
Intangible assets	21,059	28,171	49,230	-
Transmission system	2,087,932	72,922	2,160,854	-
Distribution system	7,944,287	467,899	8,412,186	-
Gas plant adjustment	723,049	29,400	752,449	-
Total accumulated depreciation/ amortization	10,776,327	598,392	11,374,719	-
Total other capital assets at cost, net	14,284,649	(478,888)	13,805,761	-
Capital assets, net	$ 14,301,227	$ (478,888)	$ 13,822,339	$ -

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

	June 30, 2009	Additions	Deletions	June 30, 2010
Capital assets not being depreciated				
Land and easements	$ 16,578	$ -	$ -	$ 16,578
Total capital assets not being depreciated	16,578	-	-	16,578
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	24,604,254	464,987	8,265	25,060,976
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	9,982,194	802,398	8,265	10,776,327
Total other capital assets at cost, net	14,622,060	(337,411)	-	14,284,649
Capital assets, net	$ 14,638,638	$ (337,411)	$ -	$ 14,301,227

Depreciation and amortization of capital assets was $598,392 and $802,398 for the years ended June 30, 2011 and 2010, respectively.

On August 24, 2010, the Board approved resolution 2010-14, authorizing the sale of the gas system to Zia Natural Gas for $9,000,000. The sale was approved by the Public Regulation Commission in March 2011, and the closing on the sale was held on March 24, 2011. Zia Gas acquired the gas system and the RGNGA customers within Dona Ana County. On November 1, 2010, the Association executed the reorganization per Board approved resolution 2010-12. The City of Las Cruces acquired assets with a cost of $7,023,517 with accumulated depreciation of $2,970,608, for a net book value of $4,052,909 and will assume responsibility for providing service to the Association's customers within the city limits.

4) Bonds Payable

Bonds payable consist of the following at June 30:

	June 30, 2010	Increases	Decreases	June 30, 2011	Amount Due Within One Year
1999 Natural Gas System					
Revenue bonds	$ 2,250,000	$ -	$ 2,250,000	$ -	$ -

	June 30, 2009	Increases	Decreases	June 30, 2010	Amount Due Within One Year
1999 Natural Gas System Revenue bonds	$ -	$ -	$ 480,000	$ (480,000)	$ 505,000

On September 1, 2010, the Association called and refunded the outstanding 1999 Natural Gas System Revenue bonds which consisted of $1,745, 000 in principal and $27,629 in interest due. Payment of principal and interest was secured by the "net revenues" and other income derived from operation of the Natural Gas System and other sources.

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, 1120 Paseo de Peralta, Santa Fe, NM 87504, or on their internet website at www.state.nm.us/pera/.

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:

	Association	Employees
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, 2009	$ 18,060	$ 8,523	$ 26,583	100%
June 30, 2010	20,443	9,648	30,091	100%
June 30, 2011	18,659	8,806	27,465	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, 2011, was $123,162; the total payroll of all employees of the Association was $138,108.

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 1.666 percent of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution equal to 0.833 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:

2011	$ 2,047
2010	1,754
2009	1,550

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 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 served as fiscal agent for the Association during fiscal year 2011, and the City's employees handled the day-to-day operations of the Association. The Association reimbursed 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. In connection with these expenditures, the Association paid the City $1,795,438 in 2011 and $3,055,886 in 2010. Additionally, the Association had gas sales of $377,092 and $492,385 to the Village of Hatch during the years ended June 30, 2011 and 2010, respectively.

7) Risk Management

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

Supplementary Information

Rio Grande Natural Gas Association
Schedule of Revenues, Expenses and Changes in Net Assets
Budget and Actual (Audited)
For the Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget - Positive
	Original	Final	**Actual**	(Negative)
Operating Revenues				
Sale of natural gas, net of sales tax	$ 12,246,912	$ 6,700,000	**$ 6,652,522**	$ (47,478)
Provision for uncollectible accounts	(122,469)	(122,469)	**(136,144)**	(13,675)
Net operating sales	12,124,443	6,577,531	**6,516,378**	(61,153)
Other	268,053	198,529	**212,951**	14,422
Net operating revenues	12,392,496	6,776,060	**6,729,329**	(46,731)
Operating Expenses				
Cost of natural gas sold	7,662,299	3,600,000	**3,537,290**	62,710
Personnel	183,329	210,000	**170,087**	39,913
Customer service	800,000	595,810	**595,810**	-
Administrative charges	82,433	50,778	**50,778**	-
Purchased services-contractor	1,800,000	1,022,160	**965,355**	56,805
Other services	193,506	155,543	**155,407**	136
Permits/fees	333,712	191,217	**197,690**	(6,473)
Supplies	6,000	3,628	**4,278**	(650)
Insurance	60,000	49,887	**49,887**	-
Other	45,450	27,155	**27,325**	(170)
Depreciation and amortization	836,939	836,939	**598,392**	238,547
Total operating costs and expenses	12,003,668	6,743,117	**6,352,299**	390,818
Operating gain	388,828	32,943	**377,030**	344,087
Other Income (Expense)				
Investment income	15,000	7,604	**13,136**	5,532
Interest expense	(103,250)	(32,430)	**(32,248)**	182
Transfer of capital assets	-	(4,052,909)	**(4,052,909)**	-
Loss on sale of capital assets	-	(769,430)	**(769,430)**	-
Capital contributions	276,210	56,000	**55,046**	(954)
Change in net assets	576,788	(4,758,222)	**(4,409,375)**	348,847
Net assets, beginning of the year	14,610,613	14,610,613	**14,610,613**	-
Net assets, end of the year	$ 15,187,401	$ 9,852,391	**$ 10,201,238**	$ 348,847

Rio Grande Natural Gas Association
Schedule of Pledged Collateral
For the Year Ended June 30, 2011

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

Institution/Security	CUSIP #	Maturity Date	Safe Keeping Location	Market Value
Wells Fargo Bank, NA			Wells Fargo Bank	
FG G04832 5.000% 10/01/2038	3128M6VZ8	10/1/2038		$ 45,086
FG H01489 6.000% 04/01/2038	3128MTUN6	4/1/2038		41,496
FN 825776 6.000% 08/01/2035	31407BMZ9	8/1/2035		2,647
FN 868293 6.000% 04/01/2036	31409DUS0	4/1/2036		4,859
FN 888268 6.000% 03/01/2037	31410FZ99	3/1/2037		1,670
FN 933732 6.000% 04/01/2038	31412SY58	4/1/2038		1,951,736
FN 983377 5.500% 08/01/2038	31415LM20	8/1/2038		694,215
FN 983363 6.000% 08/01/2038	31415LML8	8/1/2038		2,951,236
FN 256349 6.000% 08/01/2036	31371MWJ2	8/1/2036		154,450
FN 947851 6.000% 10/01/2037	31413KQC8	10/1/2037		223,115
FN 928493 6.000% 06/01/2037	31412LRN2	6/1/2037		11,004
FN 988646 6.000% 08/01/2038	31415THX1	8/1/2038		8,351
FN 923865 5.500% 04/01/2037	31412FMN0	4/1/2037		7,918,711
FN 916924 5.500% 05/01/2037	31411WVR5	5/1/2037		19,488
				$ 14,028,064

Summary of Collateralization

Wells Fargo Bank	
Ending bank balance	$ 34,439,746
Less: FDIC insurance	(21,559,742)
Total uninsured public funds	$ 12,880,004
Pledged collateral held by the pledging bank's trust department in the City's name	$ 14,028,064
100% collateral requirement	12,880,004
Pledged collateral in excess of requirement	$ 1,148,060
Uninsured and uncollateralized	$ -

Rio Grande Natural Gas Association

Schedule of Deposit Accounts and Investments

For the Year Ended June 30, 2011

The City of Las Cruces served as the fiscal agent of Rio Grande Natural Gas Association during fiscal year 2011. Therefore, Rio Grande Natural Gas Association participated 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 6/30/2011
Deposit Accounts					
Wells Fargo Bank					
Community Development	Checking	$ -	$ -	$ -	$ 113,085
Community Development Home Rehab	Checking	-	-	-	20,717
Community Development Home Program	Checking	-	-	-	28,010
Community Development MONAS Loan	Checking	-	-	-	2,098
Village of Hatch Gas Service	Savings		10,087,509	10,087,509	10,087,509
Metro Narcotics Agency	Savings	-		-	95,458
5375 Wells Fargo MM	Savings	-	-	-	1,395,488
8710-Wells Fargo MM	Savings	-	-	-	1,500,723
Treasury Fund - Operating	Checking	21,125,868	-	21,125,868	21,173,326
Payroll Direct Deposit Account	Checking	(37,867)	-	(37,867)	-
Accounts Payable	Checking	(1,822,344)	-	(1,822,344)	-
On Demand	Checking	5,349	-	5,349	23,331
Rio Grande Natural Gas Assoc Revenue	Checking	(154,870)	-	(154,870)	-
Depository	Checking	453,379	-	453,379	-
Credit Card	Checking	4,657	-	4,657	-
Electronic	Checking	(78,506)	-	(78,506)	-
Total deposit accounts		19,495,666	10,087,509	29,583,175	$ 34,439,745
Investments					
Wells Fargo Brokerage Services, LLC					
FNMA	Investment	9,979,650	-	9,979,650	
First Tennessee					
FHLB	Investment	2,955,874	-	2,955,874	
FHLMC	Investment	29,130,836	-	29,130,836	
FNMA	Investment	38,235,570	-	38,235,570	
Morgan Keegan					
FHLB	Investment	7,955,680	-	7,955,680	
FHLMC	Investment	10,663,530	-	10,663,530	
FNMA	Investment	9,828,200	-	9,828,200	
Total investments		108,749,340	-	108,749,340	
Total deposits and investments		128,245,006	10,087,509	138,332,515	
Other Cash					
Petty Cash & Change Funds	Cash	-	-	-	
Accrued Interest Receivable					
Accrued Interest – Pooled Investments	Accrued Int	709,515	-	709,515	
Total cash and investments		128,954,521	10,087,509	139,042,030	
Less balances in City of Las Cruces funds		128,945,960	-	128,945,960	
RGNGA cash and investment balance		$ 8,561	$ 10,087,509	$ 10,096,070	

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, 2011 and 2010, and have issued our report thereon dated November 22, 2011. 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.

ALBUQUERQUE
7425 Jefferson St NE, Albuquerque, NM 87109
P: 505.998.3200 F: 505.998.3333

redw.com

PHOENIX
3333 E Camelback Rd, Suite 253, Phoenix, AZ 85018
P: 602.840.4551 F: 602.840.6065

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 22, 2011

Rio Grande Natural Gas Association

Schedule of Findings and Responses
For the Year Ended June 30, 2011

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

Rio Grande Natural Gas Association
Schedule of Prior State Auditor Rule Findings
For the Year Ended June 30, 2011

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

Rio Grande Natural Gas Association

Exit Conference and Financial Statement Preparation
For the Year Ended June 30, 2011

Exit Conference

An exit conference was conducted on November 15, 2011, 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	
Andrew Nunez	President
RGNGA Attorney	
Dan Dolan	Attorney
City of Las Cruces (Fiscal Agent)	
Pat Degman, CGFM	Comptroller
Maria Villa	Accounting Supervisor
Melissa Nelson	Accounting Supervisor
REDW LLC	
Bruce Bleakman, CPA	Principal
Javier Machuca, CPA, CGFM	Senior Manager
Michele Ziegler, CPA	Manager

Financial Statement Preparation

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