

NATURAL GAS UTILITY DISTRICT  
OF HAWKINS COUNTY

Financial Statements  
With Supplementary Information

March 31, 2023 and 2022

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Financial Statements  
With Supplementary Information  
March 31, 2023 and 2022

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INTRODUCTORY SECTION (UNAUDITED)

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Roster of Officials and Commissioners  
March 31, 2023 and 2022

Officials

Mr. Patrick Lund

General Manager

Commissioners

Mr. Reed Matney

Chairman

Mr. Eugene Christian

Vice-Chairman

Mr. Tom Kern

Secretary

## FINANCIAL SECTION



## Independent Auditors' Report

Board of Commissioners  
Natural Gas Utility District of Hawkins County  
Rogersville, Tennessee

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the accompanying financial statements of Natural Gas Utility District of Hawkins County (the "District") as of and for the years ended March 31, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of March 31, 2023 and 2022, and the respective changes in financial position, and cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial

likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements of the District. The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

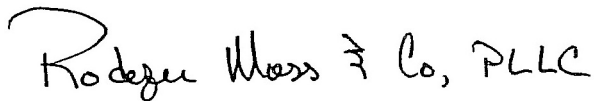
## **Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2023, on our consideration of the District'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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rodger Moss & Co, PLLC". The signature is written in a cursive, flowing style.

Greeneville, Tennessee  
July 20, 2023



NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Management's Discussion and Analysis  
March 31, 2023 and 2022

Our discussion and analysis of the financial performance of Natural Gas Utility District of Hawkins County (the "District") provides an overview of the District's financial activities for the fiscal years ended March 31, 2023, 2022, and 2021. Please read it in conjunction with the District's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The District's net position increased \$60,288 for 2023, increased \$76,294 for 2022, and increased \$291,541 for 2021.
- During the year 2023, the District had operating revenues that were \$1,299,418 more than 2022. During the year 2022, the District had operating revenues that were \$1,855,673 more than 2021. The increase in revenue for 2022 is a result of colder weather as well as a rate increase that was implemented during February 2021 due to higher transportation costs from Enbridge. The increase in revenue for 2023 resulted from higher natural gas and propane costs as well as colder weather. Industrial customer usage also increased for 2023 compared to 2022. Cost of sales for 2023 were \$1,434,559 more than 2022 and 2022 was \$2,025,162 more compared to 2021. The large increase for 2023 compared to 2022 was due to higher cost of gas as well as increased transportation costs from Enbridge. Propane costs decreased 11% in 2023 compared to 2022 and increased 94% in 2022 compared to 2021. The cost of sales have closely followed the change in revenue for the years 2023 and 2021. Due to the volatility of gas prices in 2023, revenue increased 11% while cost of sales increased 20%.
- The District's other operating revenues increased \$79,660 during 2023 and decreased by \$9,592 for 2022 compared to 2021. The increase for 2023 is due to the increase in interest income due to increased rates for savings and certificate of deposit accounts. The decrease for 2022 is because of a decrease in appliances and service due to issues in obtaining appliances because of supply issues caused by Covid-19.
- It has been increasingly difficult in recent years to project operating costs due to the extreme volatility of natural gas and propane prices. Both revenue and cost have been based on historical averages adjusted for estimated gas costs. Effective October 1, 2004, the District instituted a Purchase Gas Adjustment (PGA) rate. The retail rates are adjusted each month based on the District's cost of gas for that month. The Utility raised rates in February 2021 to absorb the rising transportation costs being charged.
- During 2022, a settlement was reached between Enbridge and gas suppliers including the District. As a result, the District was refunded \$173,335 in November and December 2021. The District issued credits to the industrial customers of \$85,908 and lowered their rates to return the remaining \$87,427 to the non-industrial customers. The District returned to their previous rates starting with the first billing in June 2022.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

The District operates as a utility enterprise and its annual report consists of a series of financial statements presented on the full accrual basis of accounting. The Statements of Net Position, Statements of Revenue, Expenses, and Changes in Net Position and Statements of Cash Flows (on pages 9-11) provide information about the District as a whole and present a longer-term view of the District's finances.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Management's Discussion and Analysis (Continued)

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the years ended March 31, 2023, 2022, and 2021.

NET POSITION

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Capital assets, net	\$ 10,604,625	\$ 10,982,743	\$ 10,971,121
Other assets, net	<u>11,999,625</u>	<u>11,649,827</u>	<u>11,521,289</u>
Total assets	22,604,250	22,632,570	22,492,410
Long-term liabilities	99,084	100,004	101,303
Other liabilities	<u>678,822</u>	<u>766,510</u>	<u>701,345</u>
Total liabilities	777,906	866,514	802,648
Net investment in capital assets	10,604,625	10,982,743	10,971,121
Unrestricted	<u>11,221,719</u>	<u>10,783,313</u>	<u>10,718,641</u>
Total net position	<u>\$ 21,826,344</u>	<u>\$ 21,766,056</u>	<u>\$ 21,689,762</u>

Other assets increased \$349,798 for 2023 compared to 2022 because of an increase in inventory of \$1,098,689 due to higher gas prices and milder weather resulting in decreased usage during the winter months during 2023 compared to 2022. Other assets increased \$128,538 for 2022 compared to 2021 because of an increase in accounts receivable of \$191,033 due to higher gas prices and inventory decreased \$110,177 because although gas prices increased, the District's storage decreased as of March 31, 2022 compared to March 31, 2021.

Long-term and other liabilities - Long-term liabilities has remained stable over the three years due to meter deposits have remained consistent. Other liabilities decreased \$87,688 for 2023 compared to 2022 due to a decrease in gas purchases included in accounts payable as of March 31, 2023. Other liabilities increased \$65,165 for 2022 compared to 2021 due to an increase in gas charges.

CHANGES IN NET POSITION

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total operating revenues	\$ 13,423,967	\$ 12,124,549	\$ 10,268,876
Total other operating revenues	<u>236,289</u>	<u>156,629</u>	<u>166,221</u>
Total revenues	13,660,256	12,281,178	10,435,097
Total operating expenses	8,655,960	7,221,401	5,196,239
Total other operating expenses	<u>4,944,008</u>	<u>4,983,483</u>	<u>4,947,317</u>
Total expenses	<u>13,599,968</u>	<u>12,204,884</u>	<u>10,143,556</u>
Change in net position	60,288	76,294	291,541
Net position, beginning of year	<u>21,766,056</u>	<u>21,689,762</u>	<u>21,398,221</u>
Net position, end of year	<u>\$ 21,826,344</u>	<u>\$ 21,766,056</u>	<u>\$ 21,689,762</u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Management's Discussion and Analysis (Continued)

CHANGES IN NET POSITION (Continued)

Revenues - The District's operating revenues consist primarily of natural gas sales. The main source of the District's other operating revenues are connection charges and forfeited discounts.

Expenses - The District's total expenses increased by \$1,395,084 during 2023 due to an increase in cost of gas and increase in expenses for installation of appliances and services. The District's expenses increased by \$2,061,328 during 2022 due to an increase in cost of gas and more gas sold.

CAPITAL ASSET

Capital Assets - At March 31, 2023, 2022 and 2021, the District had \$28.3, \$27.9, and \$27.2 million, respectively, invested in distribution plant, intangible plant, propane plant, land, buildings, equipment, furniture and fixtures and automobiles (see table below), respectively.

	2023	2022	2021
Distribution plant	\$ 20,478,134	\$ 20,264,853	\$ 20,050,149
Intangible plant	16,958	16,958	16,958
Propane plant	3,114,647	3,077,373	2,896,449
Land and right-of-ways	382,406	382,406	186,206
Buildings	1,750,532	1,741,032	1,585,442
Equipment	544,146	527,951	522,264
Furniture and fixtures	610,585	588,605	583,151
Automobile and trucks	1,367,991	1,329,289	1,329,289
Totals	<u>\$ 28,265,399</u>	<u>\$ 27,928,467</u>	<u>\$ 27,169,908</u>

The 2019-2020 capital improvements include progress on Automated Meter Reading for meters and new trucks and equipment. The District has completed approximately 78% of the meters to automated meters but progress has been affected by supply chain issues. The District will continue to extend mains as needed for future development. During 2023, the District purchased a truck and made property improvements. During 2022, the District purchased land and a building as well as completed property improvements beside their existing building for \$351,790. The Utility did not invest a lot in capital assets during 2023 or 2022 due to the Covid-19 pandemic due to supply chain issues. Depreciation has remained relatively stable over the 3 years.

RESULTS AND OUTLOOK

The District started the FY 2022-23 with a slight increase in natural gas sales compared to the same time the previous year. This increase continued until January of 2023 when warmer than normal winter temperatures began. This "warm winter" continued for the rest of the heating season resulting in the lowest overall natural gas and propane gas sales in the past two years. Despite the warmer temperatures, the number of customers increased by 1.1%. Although housing sales has slowed considerably, the District expects to continue growth in its customer base. Several new industrial customers have located in the Phipps Bend Industrial Park which should help increase the sales of natural gas in the coming years.

Correspondingly the District's appliance sales and installation reached a maximum with the number of employees it has. Only with additional personnel and equipment could that have been increased. But with the economic uncertainty, the District chose not to invest in additional resources to make that happen. Most of the increased gross sales on appliances is due to the increased wholesale prices of the appliances.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Management's Discussion and Analysis (Continued)

RESULTS AND OUTLOOK (Continued)

Natural gas prices have dropped back down to their pre-inflationary prices. Some of the NYMEX settlement prices have dropped below \$2.00/Dkt. The market is hovering around \$2.10-\$2.20 currently. Delivered propane prices also have dropped from their high of around \$2.00/gal. to \$1.50/gal. beginning in March. Current pricing is around \$1.25/gal. As a result, the District has lowered its propane prices by \$0.50/gal beginning July 1, 2023.

The District continues to see delays in obtaining necessary supplies and equipment. Most gas meters, tapping tees, regulators, etc., that are needed on a daily basis have delivery times of 6 to 18 months or more. Larger work trucks are not available until the second quarter of 2024 in most cases. The prices of new trucks have also risen considerably along with most other things. Purchasing 250, 500 and 1,000 gallon propane tanks are almost cost prohibitive. The District is currently sending its tanks to be rebuilt and repainted instead of purchasing new tanks. The costs to rehab a 500 gallon tank is about 20% the cost of a new tank.

NGL Inc., announced the construction of a fractionation plant in Bulls Gap, Tennessee. This plant will take the Y-grade liquids produced from the stripping plant operated by Eco-Energy and produce propane, butane, natural gasolines, etc. NGL predicts that they can produce 15,000 – 20,000 gallons of propane per day. This plant could provide the District's propane needs at a cheaper price by reducing the cost of transporting the propane from Catlettsburg, KY or Millner, GA as is currently the case. This cost savings could then be passed on to the District's customers.

The District is also working with Kinzer Drilling, LLC who purchased the former Tensasco Pipeline. Kinzer Drilling is currently constructing 2-1/2 miles of 8 inch steel main that will tie-into the District's 8-inch steel main south of Rogersville. This will provide a much wanted secondary feed into the District's distribution system but will also provide another source of natural gas coming out of Kentucky along Enbridge's Stone Mountain lateral. In addition the District entered into an agreement with Acheae Energy to purchase renewal natural gas from the landfill located in Hawkins County at considerable discount. All of these new developments will help the District to continue providing its customers with reliable natural gas and propane at the lowest rates possible.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our purveyors, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the District at 202 Park Boulevard, Rogersville, Tennessee 37857.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

Statements of Net Position

March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash	\$ 2,754,751	\$ 4,405,310
Certificates of deposit	5,507,372	4,491,383
Accounts receivable, net	854,923	941,332
Inventories	2,475,011	1,376,322
Unbilled revenues	189,836	274,253
Prepaid expenses	63,914	62,057
Interest receivable	<u>54,734</u>	<u>3,095</u>
Total current assets	<u>11,900,541</u>	<u>11,553,752</u>
Designated Funds		
Gas meter deposits - cash	<u>99,084</u>	<u>96,075</u>
Total designated funds	<u>99,084</u>	<u>96,075</u>
Utility Plant		
Utility plant, not being depreciated	382,406	382,406
Utility plant, being depreciated	27,882,993	27,546,061
Less accumulated depreciation	<u>(17,660,774)</u>	<u>(16,945,724)</u>
Total utility plant, net	<u>10,604,625</u>	<u>10,982,743</u>
Total assets	<u><u>\$ 22,604,250</u></u>	<u><u>\$ 22,632,570</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 383,999	\$ 479,428
Other payables and accrued liabilities	<u>294,823</u>	<u>291,011</u>
Total current liabilities	<u>678,822</u>	<u>770,439</u>
Non-Current Liabilities		
Payable from designated funds - gas meter deposits	<u>99,084</u>	<u>96,075</u>
Total non-current liabilities	<u>99,084</u>	<u>96,075</u>
Total liabilities	<u>777,906</u>	<u>866,514</u>
Net Position		
Net investment in capital assets	10,604,625	10,982,743
Unrestricted	<u>11,221,719</u>	<u>10,783,313</u>
Total net position	<u><u>\$ 21,826,344</u></u>	<u><u>\$ 21,766,056</u></u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Sales	\$ 13,423,967	\$ 12,124,549
Cost of sales	<u>8,655,960</u>	<u>7,221,401</u>
	4,768,007	4,903,148
Other operating revenues	<u>162,022</u>	<u>138,793</u>
Net operating revenues	<u>4,930,029</u>	<u>5,041,941</u>
OPERATING EXPENSES		
General and administrative	3,127,931	3,172,556
Transmission and distribution	870,786	787,727
Depreciation	715,050	746,937
Customer accounting and collection	164,399	212,393
Sales promotion	<u>65,842</u>	<u>63,870</u>
Total operating expenses	<u>4,944,008</u>	<u>4,983,483</u>
Operating (loss) income	<u>(13,979)</u>	<u>58,458</u>
OTHER INCOME		
Interest income	<u>74,267</u>	<u>17,836</u>
Total other income	<u>74,267</u>	<u>17,836</u>
Change in net position	60,288	76,294
Net position at the beginning of the year	<u>21,766,056</u>	<u>21,689,762</u>
Net position at the end of the year	<u>\$ 21,826,344</u>	<u>\$ 21,766,056</u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

Statements of Cash Flows

Years Ended March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 13,546,163	\$ 11,871,581
Cash paid to suppliers	(10,585,327)	(7,831,524)
Cash paid to employees including benefits	(3,491,754)	(3,516,346)
Other operating receipts	<u>162,022</u>	<u>138,793</u>
Net cash flows from operating activities	<u>(368,896)</u>	<u>662,504</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of utility plant	<u>(336,932)</u>	<u>(758,559)</u>
Net cash flows from capital and related financing activities	<u>(336,932)</u>	<u>(758,559)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of investments	4,491,383	6,052,605
Purchases of investments	(5,496,060)	(4,491,383)
Interest collected	<u>62,955</u>	<u>32,932</u>
Net cash flows from investing activities	<u>(941,722)</u>	<u>1,594,154</u>
Net change in cash	(1,647,550)	1,498,099
Cash at the beginning of the year	<u>4,501,385</u>	<u>3,003,286</u>
Cash at the end of the year	<u>\$ 2,853,835</u>	<u>\$ 4,501,385</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>		
Operating income	\$ (13,979)	\$ 58,458
Adjustments to reconcile operating income to cash flows from operating activities		
Depreciation	715,050	746,937
Decrease (increase) in:		
Accounts receivable	86,409	(191,033)
Inventories	(1,098,689)	110,177
Unbilled revenues	84,417	(67,722)
Prepaid expenses and interest receivable	(53,496)	(58,179)
Increase (decrease) in:		
Accounts payable	(95,429)	68,766
Accrued liabilities	3,812	(6,858)
Gas meter deposits	<u>3,009</u>	<u>1,958</u>
Net cash flows from operating activities	<u>\$ (368,896)</u>	<u>\$ 662,504</u>
<b>RECONCILIATION OF CASH TO STATEMENTS OF NET POSITION</b>		
Cash	\$ 2,754,751	\$ 4,405,310
Gas meter deposits - cash	<u>99,084</u>	<u>96,075</u>
Total	<u>\$ 2,853,835</u>	<u>\$ 4,501,385</u>

See accompanying notes to financial statements.

## NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

### Notes to Financial Statements

March 31, 2023 and 2022

#### NOTE 1 - NATURE OF ORGANIZATION

Natural Gas Utility District of Hawkins County (the “District”) was created under the Utility District Act of 1937 to provide natural gas and propane gas services to residents and businesses of Hawkins County, Tennessee.

The District receives the majority of its natural gas supply through East Tennessee Natural Gas, a division of Enbridge and Tennessee Gas Pipeline interstate pipelines. The District has firm transportation and storage contracts with these pipelines. The District purchases its natural gas supply from two marketing companies, Symmetry Energy and Tennessee Energy Acquisition Corporation, (“TEAC”). The TEAC natural gas supply is a firm long-term supply contract.

The District is operated under the control of a three-member Board of Commissioners (“Board”). The District’s operations alone constitute the reporting entity since the Board is not financially accountable for any other entities and the District has no relationships with any other entities where the nature and significance of the relationships would require inclusion in the financial statements of the District. Operating revenues are based on rates approved by the Board of Commissioners. No other board or commission has jurisdiction over the District in the management and control of its operations.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** - The District is an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District has implemented Governmental Accounting Standards Board Statement No. 62, *“Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements.”*

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation** - Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the “economic resources management focus,” and the “accrual basis of accounting”. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**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.

**Cash Equivalents** - For purposes of reporting cash flows, cash includes highly liquid investments (including restricted assets) purchased with a maturity of three months or less.

**Accounts Receivable** - The District extends unsecured credit to its customers in the ordinary course of business but mitigates the associated credit risk by actively pursuing past due accounts. Management has established an allowance for doubtful accounts of approximately \$187,000 in 2023 and \$199,000 in 2022. Based on subsequent collections, historical performance, and experience with the District’s customers, management believes that the allowance is adequate.

**Inventories** - Materials, which include appliances, supplies and gas in storage, are valued at average cost.



NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Utility Plant** - The utility plant is stated at the historical cost of construction. Such costs include direct construction costs and payroll related costs. Depreciation is provided by the straight-line method over the estimated useful lives of the related assets ranging from three to thirty-three years. The cost of normal repairs of property and the replacements and renewal of items considered being less than units of property are charged to maintenance expense. Units of property replaced or retired are credited to the utility plant accounts and charged to accumulated depreciation.

**Revenues and Expenses** - The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering gas in connection with ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Impact of Recently Issued Accounting Pronouncements** - In June 2017, the GASB issued Statement No. 87 - *Leases*, effective for financial statements for periods beginning after December 15, 2019. In May 2020, the GASB issued Statement No. 95 - *Postponement of the Effective Dates of Certain Authoritative Guidance* which postponed the effective date of GASB Statements No. 87 by eighteen months. This delayed the effective date of GASB No. 87 for financial statements for periods beginning after June 15, 2021. The primary objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. There was no impact on the current financial statements from the implementation of this Statement.

**Date of Management Review** - Management has evaluated events and transactions occurring subsequent to the statement of net position for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the independent auditors' report, which is the date these financial statements were available to be issued.

NOTE 3 - CASH AND INVESTMENTS

State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105 percent of the value of the deposits, less so much of such amount as is insured by federal deposit insurance. The collateral must be held by the District or its agent in the District's name, or by the Federal Reserve in the District's name.

Statutes also authorize the District to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, state pooled investment fund, and money market mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Notes to Financial Statements (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued)

Following are the components of the District's cash on hand and carrying amounts at March 31, 2023 and 2022:

<u>March 31, 2023</u>	<u>Undesignated</u>	<u>Designated</u>	<u>Total</u>
Cash on hand	\$ 1,000	\$ -	\$ 1,000
Bank deposits -			
Non-interest bearing demand	456,151	-	456,151
Interest bearing demand	<u>2,297,600</u>	<u>99,084</u>	<u>2,396,684</u>
Total cash	2,754,751	99,084	2,853,835
Investments in certificates of deposit	<u>5,507,372</u>	<u>-</u>	<u>5,507,372</u>
Total	<u>\$ 8,262,123</u>	<u>\$ 99,084</u>	<u>\$ 8,361,207</u>
<u>March 31, 2022</u>	<u>Undesignated</u>	<u>Designated</u>	<u>Total</u>
Cash on hand	\$ 1,000	\$ -	\$ 1,000
Bank deposits -			
Non-interest bearing demand	520,535	-	520,535
Interest bearing demand	<u>3,883,775</u>	<u>96,075</u>	<u>3,979,850</u>
Total cash	4,405,310	96,075	4,501,385
Investments in certificates of deposit	<u>4,491,383</u>	<u>-</u>	<u>4,491,383</u>
Total	<u>\$ 8,896,693</u>	<u>\$ 96,075</u>	<u>\$ 8,992,768</u>

The carrying amounts of the District's deposits were \$8,361,207 and \$8,992,768 and the bank balances were \$8,521,846 and \$9,108,509 as of March 31, 2023 and 2022. Of the bank balances, \$1,518,259 for 2023 and \$836,065 for 2022 were covered by federal depository insurance and \$7,003,587 and \$8,272,444 were covered for 2023 and 2022 through the banks' participation in the Tennessee Bank Collateral Pool.

NOTE 4 - INVENTORIES

Inventory is valued at average cost. Inventories consisted of:

	<u>2023</u>	<u>2022</u>
Natural gas storage	\$ 1,083,939	\$ 201,813
Appliances, parts and supplies	1,038,122	1,061,494
Propane	<u>352,950</u>	<u>113,015</u>
	<u>\$ 2,475,011</u>	<u>\$ 1,376,322</u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Notes to Financial Statements (Continued)

NOTE 5 - MAJOR SUPPLIERS

For the years ended March 31, 2023 and 2022 there were two suppliers that comprised greater than ten percent of the District's gas purchases. These purchases totaled approximately \$7.0 million for 2023 and \$4.6 million for 2022 or 98% and 98% of gas purchases during 2023 and 2022, respectively.

NOTE 6 - MAJOR CUSTOMER

For the year ended March 31, 2023 and 2022, one customer comprised greater than ten percent of the District's gas sales. These sales totaled approximately \$1.4 million for 2023 and \$1.1 million for 2022 or 13.56% and 12.17% of gas sales for 2023 and 2022, respectively.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District obtains commercial insurance to cover general liability claims, errors or omissions liability, auto liability, property damage, and workers' compensation. The District is covered by the Tennessee Governmental Tort Liability Act, which generally limits the District's tort liability to \$350,000 per claim. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three years.

NOTE 8 - UTILITY PLANT

Utility plant activity for the year ended March 31, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and land rights	\$ 382,406	\$ -	\$ -	\$ 382,406
Total capital assets not being depreciated	<u>382,406</u>	<u>-</u>	<u>-</u>	<u>382,406</u>
Capital assets being depreciated				
Buildings and permanent improvements	1,741,032	9,500	-	1,750,532
Equipment and gas distribution system	<u>25,805,029</u>	<u>327,432</u>	<u>-</u>	<u>26,132,461</u>
Total capital assets being depreciated	27,546,061	336,932	-	27,882,993
Less accumulated depreciation	<u>16,945,724</u>	<u>715,050</u>	<u>-</u>	<u>17,660,774</u>
Total capital assets being depreciated, net	<u>10,600,337</u>	<u>(378,118)</u>	<u>-</u>	<u>10,222,219</u>
Total capital assets, net	<u>\$10,982,743</u>	<u>\$ (378,118)</u>	<u>\$ -</u>	<u>\$10,604,625</u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Notes to Financial Statements (Continued)

NOTE 8 - UTILITY PLANT (Continued)

Utility plant activity for the year ended March 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and land rights	\$ 186,206	\$ 196,200	\$ -	\$ 382,406
Total capital assets not being depreciated	<u>186,206</u>	<u>196,200</u>	<u>-</u>	<u>382,406</u>
Capital assets being depreciated				
Buildings and permanent improvements	1,585,442	155,590	-	1,741,032
Equipment and gas distribution system	<u>25,398,260</u>	<u>406,769</u>	<u>-</u>	<u>25,805,029</u>
Total capital assets being depreciated	26,983,702	562,359	-	27,546,061
Less accumulated depreciation	<u>16,198,787</u>	<u>746,937</u>	<u>-</u>	<u>16,945,724</u>
Total capital assets being depreciated, net	<u>10,784,915</u>	<u>(184,578)</u>	<u>-</u>	<u>10,600,337</u>
Total capital assets, net	<u>\$10,971,121</u>	<u>\$ 11,622</u>	<u>\$ -</u>	<u>\$10,982,743</u>

Depreciation charged to income was \$715,050 and \$746,937 for the years ended March 31, 2023 and 2022, respectively.

NOTE 9 - DEFERRED COMPENSATION PLAN

Employees of the District are offered a deferred compensation plan through Natural Gas Utility District of Hawkins County (the "Plan") created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency. The assets of the plan are held in a trust for the exclusive benefit of the participants and their beneficiaries. Presently, the District does not match any employee deferrals.

NOTE 10 - DEFINED CONTRIBUTION PLAN

Employees of the District are provided a contributory target benefit defined contribution retirement plan covering substantially all of its employees through Hawkins County Gas Utility Defined Contribution Retirement Plan (the "Plan"). The Plan provisions and contribution requirements are established by and may be amended by the District's Board of Commissioners. Employees are eligible to participate in the plan after completion of six months of service and attainment of their 21<sup>st</sup> birthday. Employees participate in the plan on January 1, April 1, July 1, or October 1 after the eligibility requirements are met. The plan allows employees to contribute up to 2% of their annual salary to the plan. The District's contributions to the plan are actuarially calculated based on age, salary, and date of employment, using a target benefit of 25% of the employee's annual average compensation. The District's contributions for each employee and earnings allocated to each employee's account are vested on a graded schedule of 20% increments for 2-6 years of service. The employee is vested 100% at all times for employee contributions. Forfeitures of the Plan may be used to satisfy any contribution paid by the District or to pay any administrative expenses of the Plan. The Plan did not use any forfeitures during the years ended March 31, 2023 and 2022. The balances of forfeitures available at March 31, 2023 and 2022 were \$6,106 and \$733, respectively. The District's contributions to the plan totaled \$265,439 for 2023 and \$311,972 for 2022. Employees' contributions to the plan totaled \$37,797 for 2023 and \$35,027 for 2022.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Notes to Financial Statements (Continued)

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to concentrations of credit risk consist primarily of cash, certificates of deposit and customer accounts receivable. The District's cash deposits and investments in certificates of deposit are in financial institutions and are federally insured or collateralized. Credit evaluation and account monitoring procedures are utilized to minimize the risk of loss. Management does not believe significant credit risk existed at March 31, 2023.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The District has firm gas supply and firm gas transportation contracts some of which do not expire until September 2049. These contracts typically contain minimum demand or storage obligations on the part of the District.

The District is involved in litigation and claims arising principally in the normal course of business. In the opinion of management, the outcomes of these claims will not have a material adverse effect on the accompanying financial statements and accordingly, no provisions have been recorded.

## SUPPLEMENTARY INFORMATION

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

Schedules of Operating Revenues  
Years Ended March 31, 2023 and 2022

	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross Profit</u>	<u>Gross Profit Percentage</u>
Year Ended March 31, 2023				
Natural gas	\$ 10,159,623	\$ 6,191,437	\$ 3,968,186	39.1%
Propane	1,749,796	959,255	790,541	45.2%
Appliances and service	<u>1,514,548</u>	<u>1,505,268</u>	<u>9,280</u>	<u>0.6%</u>
	<u>\$ 13,423,967</u>	<u>\$ 8,655,960</u>	<u>\$ 4,768,007</u>	35.5%
Year Ended March 31, 2022				
Natural gas	\$ 9,103,359	\$ 4,747,059	\$ 4,356,300	47.9%
Propane	1,689,717	1,074,557	615,160	36.4%
Appliances and service	<u>1,331,473</u>	<u>1,399,785</u>	<u>(68,312)</u>	<u>-5.1%</u>
	<u>\$ 12,124,549</u>	<u>\$ 7,221,401</u>	<u>\$ 4,903,148</u>	40.4%

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Schedules of Other Operating Revenues  
Years Ended March 31, 2023 and 2022

	2023		2022	
	Amount	Percent of Sales	Amount	Percent of Sales
Connection charges	\$ 35,898	0.3%	\$ 34,280	0.3%
Forfeited discounts	121,321	0.9%	98,527	0.8%
Miscellaneous revenues	1,380	0.0%	1,920	0.0%
Discounts taken	<u>3,423</u>	<u>0.0%</u>	<u>4,066</u>	<u>0.0%</u>
	<u>\$ 162,022</u>	1.2%	<u>\$ 138,793</u>	1.1%



NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

Schedules of Other Operating Expenses

Years Ended March 31, 2023 and 2022

	2023		2022	
	Amount	Percent of Sales	Amount	Percent of Sales
Transmission and distribution expense				
Salaries	\$ 449,569	3.3%	\$ 397,431	3.3%
Repair and maintenance	380,107	2.8%	348,442	2.9%
Engineering	41,110	0.3%	41,854	0.3%
	<u>870,786</u>	<u>6.5%</u>	<u>787,727</u>	<u>6.5%</u>
Customer accounting and collection expense				
Salaries	59,421	0.4%	98,340	0.8%
Uncollectible accounts	41,379	0.3%	57,121	0.5%
Supplies and expenses	63,599	0.5%	56,932	0.5%
	<u>164,399</u>	<u>1.2%</u>	<u>212,393</u>	<u>1.8%</u>
Sales promotions	<u>65,842</u>	<u>0.5%</u>	<u>63,870</u>	<u>0.5%</u>
General and administrative expense				
Employee benefits	1,301,358	9.7%	1,405,467	11.6%
Salaries	1,194,804	8.9%	1,098,344	9.1%
Insurance	266,344	2.0%	329,805	2.7%
Office supplies and expense	135,216	1.0%	126,426	1.0%
Repairs and maintenance	98,267	0.7%	95,143	0.8%
Utilities and telephone	86,686	0.6%	78,841	0.7%
Professional fees	75,171	0.6%	54,485	0.4%
Other general and administrative expense	51,249	0.4%	53,509	0.4%
Commissioners expense	16,500	0.1%	19,620	0.2%
Transportation	939	0.0%	332	0.0%
Freight	622	0.0%	83	0.0%
Overhead capitalized to plant	(99,225)	-0.7%	(89,499)	-0.7%
	<u>3,127,931</u>	<u>23.3%</u>	<u>3,172,556</u>	<u>26.2%</u>
Depreciation	<u>715,050</u>	<u>5.3%</u>	<u>746,937</u>	<u>6.2%</u>
	<u>\$ 4,944,008</u>	<u>36.8%</u>	<u>\$ 4,983,483</u>	<u>41.1%</u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Schedule of Utility Plant in Service  
March 31, 2023

	Cost April 1, 2022	Additions	Retirements	Cost March 31, 2023
Distribution plant				
Mains	\$ 13,428,815	\$ 16,144	\$ -	\$ 13,444,959
Service lines	4,149,757	77,788	-	4,227,545
Meters	2,686,281	119,349	-	2,805,630
	<u>20,264,853</u>	<u>213,281</u>	<u>-</u>	<u>20,478,134</u>
Intangible plant	<u>16,958</u>	<u>-</u>	<u>-</u>	<u>16,958</u>
Propane plant	<u>3,077,373</u>	<u>37,274</u>	<u>-</u>	<u>3,114,647</u>
General plant				
Land and right-of-ways	382,406	-	-	382,406
Buildings	1,741,032	9,500	-	1,750,532
Equipment	527,951	16,195	-	544,146
Furniture and fixtures	588,605	21,980	-	610,585
Automobiles and trucks	1,329,289	38,702	-	1,367,991
	<u>4,569,283</u>	<u>86,377</u>	<u>-</u>	<u>4,655,660</u>
	<u>\$ 27,928,467</u>	<u>\$ 336,932</u>	<u>\$ -</u>	<u>\$ 28,265,399</u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Schedule of Utility Rates  
March 31, 2023

Residential  
Base Tariff Rates Excluding Gas Cost

Customer service charge	\$5.95
Standard gas charge	0.663 per therm
Summer reduced rate	.336 per therm
Supplemental service rate	1.636 per therm

Commercial  
Base Tariff Rates Excluding Gas Cost

Customer service charge	\$6.95
Standard gas charge	0.673 per therm
Summer reduced rate	.366 per therm
Supplemental service rate	1.646 per therm

Public Authority and Religious  
Base Tariff Rates Excluding Gas Cost

Customer service charge	\$5.95
Standard gas charge	0.626 per therm
Summer reduced rate	.366 per therm
Supplemental service rate	1.636 per therm

Small Industrial  
Base Tariff Rates Excluding Gas Cost

Customer service charge	\$60.00
Standard gas charge	0.646 per therm

Large Industrial  
Base Tariff Rates Excluding Gas Cost

Customer service charge	\$100.00
Next 40,000 therms	0.616 per therm
For all over 40,000 therms each month	0.556 per therm

Interruptible  
Base Tariff Rates Excluding Gas Cost

For the first 40,000 therms each month	.408 per therm
For all over 40,000 therms each month	.338 per therm

The average cost of gas for the current month will be added to the above base tariff rates for the current month billing.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Schedule of Utility Rates (Continued)

A 10% penalty is added to all amounts not paid by the discount date. Summer reduced rates apply to gas used for space cooling from May through September. Supplemental service rates apply to gas used for supplemental and/or auxiliary fuel in automatically controlled heating equipment where gas is not the primary heat source from November through March.

The number of natural gas customers at March 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Residential	6,927	6,841
Commercial	486	489
Public authority and religious	391	395
Industrial and interruptible	<u>33</u>	<u>35</u>
	<u>7,837</u>	<u>7,760</u>

## COMPLIANCE REPORTS



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

Board of Commissioners  
Natural Gas Utility District  
of Hawkins County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Natural Gas Utility District of Hawkins County (the "District") as of and for the year ended March 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated July 20, 2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a significant deficiency.

**Report on Compliance and Other Matters**

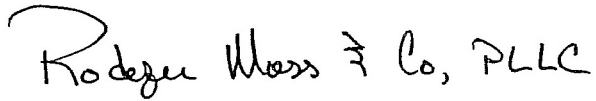
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

**District's Response to Finding**

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

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

A handwritten signature in black ink that reads "Rodger Moss & Co, PLLC". The signature is written in a cursive, flowing style.

Greeneville, Tennessee  
July 20, 2023

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Schedule of Findings and Responses  
Year Ended March 31, 2023

Findings - Financial Statement Audit

Significant Deficiencies - Internal Control Over Financial Reporting

**2023-001 - Segregation of Duties (repeated from prior year)**

Criteria

Ideally, duties should be segregated so that one person is performing only one of the following functions in relation to a specific aspect of the District:

- 1) Custody
- 2) Recording
- 3) Authorization

Condition

Due to the small size of the bookkeeping staff, segregation of duties is inadequate.

Effect of Condition

One person in control of all aspects of accounting leaves greater potential for error or fraud to occur.

Cause of Condition

The District only employs one individual in the accounting department.

Recommendation

Internal control procedures should be in place to segregate the duties of custody, recording, and authorization of the accounting records to prevent error and fraud.

Management's Response

Management acknowledges that segregation of duties is not ideal; however, management continues to study the most efficient ways to eliminate or mitigate this weakness.



NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Schedule of Disposition of Prior Year Findings  
Year Ended March 31, 2023

Prior Year Financial Statement Findings

<u>Prior Year Finding Number</u>	<u>Finding Title</u>	<u>Status/ Current Year Finding Number</u>
2022-001	Segregation of Duties (original finding #2016-001)	Repeated/2023-001



202 Park Boulevard – PO Box 667  
Rogersville, TN 37857  
(423) 272-8841 • (423) 246-4212 • (423) 357-8585  
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NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY  
Management's Corrective Action Plan  
March 31, 2023

2023-001 - Segregation of Duties (Repeated from prior year)

Recommendation

Internal control procedures should be in place to segregate the duties of custody, recording, and authorization of the accounting records to prevent error and fraud.

Action Taken

Currently the general ledger is maintained by the accountant with the Board reviewing financial statements at meetings. The accounting process does not lend itself to an appropriate segregation of duties and oversight of transactions. Due to the small size of the organization and cost efficiency, the current accounting process is the most beneficial. The Board will add levels of duties if the District increases in transactions and size.

Name of Contact Person: Patrick Lund  
Anticipated Completion Date: Ongoing

Sincerely,

Patrick Lund  
General Manager