

NATURAL GAS UTILITY DISTRICT
OF HAWKINS COUNTY

Financial Statements
with Supplementary Information

March 31, 2025 and 2024

Audited by:



NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Financial Statements
with Supplementary Information
March 31, 2025 and 2024

Table of Contents

	<u>Page</u>
Introductory Section (Unaudited)	
Roster of Officials and Commissioners	1
Financial Section	
Independent Auditors' Report	2
Management's Discussion and Analysis (Unaudited)	5
Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12
Supplementary Information	
Schedules of Operating Revenues	18
Schedules of Other Operating Revenues	19
Schedules of Other Operating Expenses	20
Schedule of Utility Plant in Service	21
Schedule of Utility Rates	22
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 <i>Government Auditing Standards</i>	24
Schedule of Findings and Responses	26
Schedule of Disposition of Prior Year Findings	27
Management's Corrective Action Plan	28

INTRODUCTORY SECTION (UNAUDITED)

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Roster of Officials and Commissioners
March 31, 2025 and 2024

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, 2025 and 2024, and the related notes to the financial statements which collectively comprise the District's 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, 2025 and 2024, 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.

Emphasis of a Matter

As described in Note 2 to the financial statements, in 2025, the District adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information 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 audits 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 18, 2025, 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.

ClearPoint CPAs PC

Greeneville, Tennessee
July 18, 2025

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Management's Discussion and Analysis (Unaudited)
March 31, 2025 and 2024

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, 2025, 2024, and 2023. Please read it in conjunction with the District's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The beginning net position was restated for fiscal year 2025 by \$101,982 as a result of implementing GASB Statement No. 101, *Compensated Absences*. See further discussion below and Note 13 to the financial statements.
- The net position decreased \$482,222 for 2025, decreased \$333,675 for 2024, and increased \$60,288 for 2023.
- During the year 2025, the operating revenues were \$259,244 more than 2024. During the year 2024, the operating revenues were \$2,978,410 less than 2023. The increase in revenue for 2025 resulted from higher usage due to colder weather and an increase in the number of customers. The decrease in revenue for 2024 resulted from lower natural gas and propane costs as well as milder weather. Industrial customer usage also decreased for 2024 compared to 2023. Cost of sales for 2025 were \$344,501 more than 2024 and 2024 was \$2,615,771 less compared to 2023. Propane costs increased 23% in 2025 compared to 2024 and decreased 10% in 2024 compared to 2023. The cost of sales has closely followed the change in revenue for the years 2025. Due to the volatility of gas prices in 2024, revenue decreased 22% while cost of sales increased 30% compared to 2023.
- The other operating revenues decreased \$25,791 during 2025 and increased by \$155,272 for 2024 compared to 2023. Penalty revenue decreased in 2025 due to a reduction in the number of penalties assessed during the year. Conversely, the increase in penalty revenue in 2024 was the result of higher penalties assessed compared to 2023.
- 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. The District utilizes a Purchase Gas Adjustment (PGA) rate. The retail rates are adjusted each month based on the cost of gas for that month.

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.

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the years ended March 31, 2025, 2024, and 2023.

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

NET POSITION

	2025	2024	2023
Capital assets, net	\$ 10,264,627	\$ 10,295,079	\$ 10,604,625
Other assets, net	11,745,808	11,953,838	11,999,625
Total assets	22,010,435	22,248,917	22,604,250
Long-term liabilities	182,107	97,364	99,084
Other liabilities	919,863	658,884	678,822
Total liabilities	1,101,970	756,248	777,906
Net investment in capital assets	10,264,627	10,295,079	10,604,625
Unrestricted	10,643,838	11,197,590	11,221,719
Total net position	\$ 20,908,465	\$ 21,492,669	\$ 21,826,344

Other assets decreased \$208,030 in 2025 compared to 2024, primarily due to a \$628,253 reduction in inventory. This decrease was partially offset by a \$229,284 increase in accounts receivable, attributed to higher usage at year-end resulting from cooler weather conditions in 2025 compared to the prior year. Other assets decreased \$45,787 for 2024 compared to 2023 because of a decrease in inventory of \$263,669 due to lower gas prices and milder weather resulting in decreased usage during the winter months during 2024 compared to 2023.

Long-term and other liabilities – Long-term liabilities increased \$84,743 in 2025 compared to 2024 due to the implementation of GASB 101, *Compensated Absences*, which revised the recognition criteria and measurement of leave-related obligations. Long-term liabilities remained stable in 2024 compared to 2023, due to meter deposits remaining consistent. Other liabilities increased \$260,979 for 2025 compared to 2024 due to an increase in gas purchases included in accounts payable as of March 31, 2025. Other liabilities decreased \$19,938 for 2024 compared to 2023 due to a decrease in gas purchases included in accounts payable as of March 31, 2024.

CHANGES IN NET POSITION

	2025	2024	2023
Total operating revenues	\$ 10,766,796	\$ 10,481,761	\$ 13,423,967
Total other operating revenues	407,268	391,561	236,289
Total revenues	11,174,064	10,873,322	13,660,256
Total operating expenses	6,384,690	6,040,189	8,655,960
Total other operating expenses	5,271,596	5,166,808	4,944,008
Total expenses	11,656,286	11,206,997	13,599,968
Change in net position	(482,222)	(333,675)	60,288
Net position, beginning of year as previously reported	21,492,669	21,826,344	21,766,056
Prior period adjustment (See Note 13)	(101,982)	-	-
Net position at the beginning of the year, restated	21,390,687	21,826,344	21,766,056
Net position, end of year	\$ 20,908,465	\$ 21,492,669	\$ 21,826,344

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

CHANGES IN NET POSITION (Continued)

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

Expenses - Total expenses increased by \$449,289 during 2025 due to an increase in gas demand and the cost of gas. Total expenses decreased by \$2,392,971 during 2024 due to a decrease in cost of gas.

CAPITAL ASSETS

At March 31, 2025, 2024 and 2023, the District had \$29.3, \$28.6, and \$28.3 million, respectively, invested in distribution plant, intangible plant, propane plant, land, buildings, equipment, furniture and fixtures and automobiles (see table below).

	2025	2024	2023
Distribution plant	\$ 21,032,610	\$ 20,737,876	\$ 20,478,134
Intangible plant	16,958	16,958	16,958
Propane plant	3,223,281	3,154,683	3,114,647
Land and right-of-ways	382,406	382,406	382,406
Buildings	1,752,767	1,752,767	1,750,532
Equipment	582,562	561,737	544,146
Furniture and fixtures	644,717	621,761	610,585
Automobile and trucks	1,681,619	1,418,157	1,367,991
Totals	\$ 29,316,920	\$ 28,646,345	\$ 28,265,399

The District continues to extend mains as needed for future development. During 2025, the District purchased four trucks. During 2024, the District purchased a truck and made property improvements. The Utility did not invest a lot in capital assets during 2024 or 2023 due to supply chain issues. Depreciation has remained relatively stable over the 3 years.

RESULTS AND OUTLOOK

The District is currently conducting a rate study to address a combined \$500,000 loss experienced over the past two fiscal years. Additionally, a potential 120% increase in firm transportation rates from East Tennessee Natural Gas (ETNG) is expected, effective November 1, 2025, if approved. This could increase annual expenses by up to \$1 million. The District, in collaboration with other affected utilities, has filed protests with the Federal Energy Regulatory Commission (FERC) against this proposed increase. The necessary rate adjustments are being determined to cover both the potential ETNG increase and operational expenses.

The District has been working diligently with Tennessee Energy Acquisition Company (TEAC) to do a natural gas pre-pay contract with a local large industry. That industry is a direct serve off of ETNG and therefore is not currently a customer of the District. The industry has agreed to enter into a contract with the District to buy 5,000 dekatherms of gas per day. The savings from the discounted gas will be split evenly between the two parties. The projected income stream from this contract would start at \$273,000 per year based on the minimum discount that would be accepted by contract from the bond issuance. In order to protect the District's customer base from any default by the large customer, the District will only receive its share of the savings at the end of every 12-months. Should the industry default on payment of its gas bill, then the District would only lose its savings and would not be responsible for payment of the defaulted gas bill.

Furthermore, the District's 2018 30-year pre-pay deal with Tennessee Energy Acquisition Company (TEAC) is scheduled for bond refinancing in September 2025. Management anticipates that current higher interest rates may lead to an increased discount rate upon refinancing.

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

RESULTS AND OUTLOOK (Continued)

Hawkins County is experiencing higher than normal inquiries about available land for siting of manufacturing and warehousing facilities. Several of these manufacturing facilities are near to actually purchasing land upon which to build their facilities. Many of these facilities would use natural gas in the course of their production.

The county is also observing a significant increase in propane customer growth. However, the District faces a challenge in acquiring residential propane tanks. New tank prices have dramatically increased from approximately \$800 to over \$2,200 for a 500-gallon tank. While the District has successfully refurbished old tanks at a cost of roughly \$500 each, their capacity for this is limited. Consequently, the District may need to purchase new tanks to meet rising demand, which could necessitate future increases in propane rates to offset these higher expenses.

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

	<u>2025</u>	<u>2024</u>
ASSETS		
Current Assets		
Cash	\$ 3,658,594	\$ 2,500,362
Certificates of deposit	5,180,923	6,157,845
Accounts receivable, net	794,203	564,919
Inventories	1,583,089	2,211,342
Unbilled revenues	213,045	185,731
Prepaid expenses	87,590	79,491
Interest receivable	129,101	156,784
Total current assets	<u>11,646,545</u>	<u>11,856,474</u>
Designated Funds		
Gas meter deposits - cash	<u>99,263</u>	<u>97,364</u>
Total designated funds	<u>99,263</u>	<u>97,364</u>
Utility Plant		
Utility plant, not being depreciated	382,406	382,406
Utility plant, being depreciated	28,934,514	28,263,939
Less accumulated depreciation	<u>(19,052,293)</u>	<u>(18,351,266)</u>
Total utility plant, net	<u>10,264,627</u>	<u>10,295,079</u>
Total assets	<u>\$ 22,010,435</u>	<u>\$ 22,248,917</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 561,922	\$ 366,938
Other payables and accrued liabilities	127,199	291,946
Accrued paid time off	<u>230,742</u>	<u>-</u>
Total current liabilities	<u>919,863</u>	<u>658,884</u>
Non-Current Liabilities		
Payable from designated funds - gas meter deposits	99,263	97,364
Accrued paid time off	<u>82,844</u>	<u>-</u>
Total non-current liabilities	<u>182,107</u>	<u>97,364</u>
Total liabilities	<u>1,101,970</u>	<u>756,248</u>
Net Position		
Net investment in capital assets	10,264,627	10,295,079
Unrestricted	<u>10,643,838</u>	<u>11,197,590</u>
Total net position	<u>\$ 20,908,465</u>	<u>\$ 21,492,669</u>

See accompanying notes to financial statements.

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

	2025	2024
OPERATING REVENUES		
Sales	\$ 10,766,796	\$ 10,481,761
Cost of sales	<u>6,384,690</u>	<u>6,040,189</u>
	4,382,106	4,441,572
Other operating revenues	<u>100,027</u>	<u>125,818</u>
Net operating revenues	<u>4,482,133</u>	<u>4,567,390</u>
OPERATING EXPENSES		
General and administrative	3,321,497	3,178,719
Transmission and distribution	964,123	1,064,605
Depreciation	701,027	690,492
Customer accounting and collection	205,014	155,267
Sales promotion	<u>79,935</u>	<u>77,725</u>
Total operating expenses	<u>5,271,596</u>	<u>5,166,808</u>
Operating loss	<u>(789,463)</u>	<u>(599,418)</u>
OTHER INCOME		
Interest income	<u>307,241</u>	<u>265,743</u>
Total other income	<u>307,241</u>	<u>265,743</u>
Change in net position	(482,222)	(333,675)
Net position at the beginning of the year as previously reported	21,492,669	21,826,344
Prior period adjustment (See Note 13)	<u>(101,982)</u>	<u>-</u>
Net position at the beginning of the year, restated	21,390,687	21,826,344
Net position at the end of the year	<u>\$ 20,908,465</u>	<u>\$ 21,492,669</u>

See accompanying notes to financial statements.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

Statements of Cash Flows

Years Ended March 31

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 10,484,414	\$ 10,876,200
Cash paid to suppliers	(6,361,507)	(6,866,779)
Cash paid to employees including benefits	(3,731,757)	(3,549,400)
Other operating receipts	100,027	125,818
Net cash flows from operating activities	491,177	585,839
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of utility plant	(670,575)	(380,946)
Net cash flows from capital and related financing activities	(670,575)	(380,946)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	6,563,211	5,416,883
Purchases of investments	(5,530,923)	(6,143,628)
Interest collected	307,241	265,743
Net cash flows from investing activities	1,339,529	(461,002)
Net change in cash	1,160,131	(256,109)
Cash at the beginning of the year	2,597,726	2,853,835
Cash at the end of the year	\$ 3,757,857	\$ 2,597,726
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (789,463)	\$ (599,418)
Adjustments to reconcile operating income to cash flows from operating activities		
Depreciation	701,027	690,492
Decrease (increase) in:		
Accounts receivable	(229,284)	290,004
Inventories	628,253	263,669
Unbilled revenues	(27,314)	4,105
Prepaid expenses and interest receivable	(35,782)	(41,355)
Increase (decrease) in:		
Accounts payable	194,984	(17,061)
Accrued liabilities	(164,747)	(2,877)
Accrued paid time off	211,604	-
Gas meter deposits	1,899	(1,720)
Net cash flows from operating activities	\$ 491,177	\$ 585,839
RECONCILIATION OF CASH TO STATEMENTS OF NET POSITION		
Cash	\$ 3,658,594	\$ 2,500,362
Gas meter deposits - cash	99,263	97,364
Total	\$ 3,757,857	\$ 2,597,726

See accompanying notes to financial statements.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Notes to Financial Statements
March 31, 2025 and 2024

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 \$173,000 in 2025 and \$159,000 in 2024. 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.

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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Utility Plant (Continued)- Units of property replaced or retired are credited to the utility plant accounts and charged to accumulated depreciation.

Compensated Absences – Full-time employees of the District are eligible to earn paid vacation based on years of service. Employees may carry over up to 50% of unused vacation into the following calendar year, and certain unused vacation hours not eligible for carryover may be paid out in accordance with District policy.

Full-time employees also earn one day of sick leave for each full month of employment, up to a maximum accumulation of 192 hours. Although sick leave is not paid upon separation, historical data indicates that employees use a substantial portion of the sick leave earned annually. Based on this usage pattern and in accordance with GASB Statement No. 101 – *Compensated Absences*, the District recognizes a liability for leave that is attributable to services already rendered, is earned by the employee, and is more likely than not to be used or paid.

The total compensated absences liability recorded in the financial statements was \$313,586 as of March 31, 2025, and \$286,262 as of March 31, 2024, as restated. The 2024 balance was restated to reflect the implementation of GASB Statement No. 101, as further described in Note 13.

During the fiscal year, the following transaction occurred:

	Restated Beginning Balance	Net Change	Ending Balance	Amount due Within One Year
Accrued paid time off	\$ 286,262	\$ 27,324	\$ 313,586	\$ 230,742

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.

Leases - The District accounts for leases under GASB Statement No. 87 – *Leases*. 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. The District does not have any leases subject to capitalization under GASB No. 87.

Subscription-Based Information Technology Arrangements - The District has implemented GASB Statement No. 96, which provides guidance on accounting for subscription-based information technology arrangements (SBITAs). It defines SBITAs, requires recognition of a right-to-use intangible asset and corresponding liability, outlines capitalization rules for related costs, and mandates note disclosures. Currently, the District has no agreements that meet this definition.

Impact of Recently Issued Accounting Pronouncements - In June 2022, the Governmental Accounting Standards Board ("GASB") issued Statement No. 101–*Compensated Absences*, which revises the recognition and measurement guidance for compensated absences. Effective for financial statements for periods beginning after December 15, 2023, the objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. Additionally, that objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previous required disclosures. As a result of implementing GASB Statement No. 101, a restatement of \$286,262 has been presented to reflect the implementation of this standard.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 July 18, 2025, 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.

Following are the components of the District's cash on hand and carrying amounts at March 31, 2025 and 2024:

March 31, 2025	Undesignated	Designated	Total
Cash on hand	\$ 1,000	\$ -	\$ 1,000
Bank deposits -			
Non-interest bearing demand	433,954	-	433,954
Interest bearing demand	<u>3,223,640</u>	<u>99,263</u>	<u>3,322,903</u>
Total cash	3,658,594	99,263	3,757,857
Investments in certificates of deposit	<u>5,180,923</u>	-	<u>5,180,923</u>
Total	<u>\$ 8,839,517</u>	<u>\$ 99,263</u>	<u>\$ 8,938,780</u>
March 31, 2024	Undesignated	Designated	Total
Cash on hand	\$ 1,000	\$ -	\$ 1,000
Bank deposits -			
Non-interest bearing demand	413,181	-	413,181
Interest bearing demand	<u>2,086,181</u>	<u>97,364</u>	<u>2,183,545</u>
Total cash	2,500,362	97,364	2,597,726
Investments in certificates of deposit	<u>6,157,845</u>	-	<u>6,157,845</u>
Total	<u>\$ 8,658,207</u>	<u>\$ 97,364</u>	<u>\$ 8,755,571</u>

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

NOTE 3 - CASH AND INVESTMENTS (Continued)

The carrying amounts of the District's deposits were \$8,938,780 and \$8,755,571 and the bank balances were \$9,028,459 and \$8,960,707 as of March 31, 2025 and 2024, respectively. Of the bank balances, \$1,003,994 for 2025 and \$1,522,211 for 2024 were covered by federal depository insurance and \$8,024,465 and \$7,438,496 were covered for 2025 and 2024, respectively through the banks' participation in the Tennessee Bank Collateral Pool.

NOTE 4 - INVENTORIES

Inventory is valued at average cost. Inventories consisted of:

	2025	2024
Natural gas storage	\$ 427,916	\$ 616,853
Appliances, parts and supplies	1,087,208	1,104,758
Propane	67,965	489,731
	<u>\$ 1,583,089</u>	<u>\$ 2,211,342</u>

NOTE 5 - MAJOR SUPPLIERS

For the years ended March 31, 2025 and 2024, there was one supplier that comprised greater than ten percent of the District's gas purchases. These purchases totaled approximately \$3.6 million for 2025 and \$3.1 million for 2024 or 99% and 96% of gas purchases during 2025 and 2024, respectively.

NOTE 6 - MAJOR CUSTOMER

For the year ended March 31, 2025 and 2024, one customer comprised greater than ten percent of the District's gas sales. These sales totaled approximately \$782,000 for 2025 and \$738,000 for 2024 or 10% of gas sales for 2025 and 2024.

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.

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

NOTE 8 - UTILITY PLANT

Utility plant activity for the year ended March 31, 2025 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	382,406	-	-	382,406
Capital assets being depreciated				
Buildings and permanent improvements	1,752,767	-	-	1,752,767
Equipment and gas distribution system	26,511,172	670,575	-	27,181,747
Total capital assets being depreciated	28,263,939	670,575	-	28,934,514
Less accumulated depreciation	(18,351,266)	(701,027)	-	(19,052,293)
Total capital assets being depreciated, net	9,912,673	(30,452)	-	9,882,221
Total capital assets, net	\$ 10,295,079	\$ (30,452)	\$ -	\$ 10,264,627

Utility plant activity for the year ended March 31, 2024 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	382,406	-	-	382,406
Capital assets being depreciated				
Buildings and permanent improvements	1,750,532	2,235	-	1,752,767
Equipment and gas distribution system	26,132,461	378,711	-	26,511,172
Total capital assets being depreciated	27,882,993	380,946	-	28,263,939
Less accumulated depreciation	(17,660,774)	(690,492)	-	(18,351,266)
Total capital assets being depreciated, net	10,222,219	(309,546)	-	9,912,673
Total capital assets, net	\$ 10,604,625	\$ (309,546)	\$ -	\$ 10,295,079

Depreciation charged to income was \$701,027 and \$690,492 for the years ended March 31, 2025 and 2024, respectively.

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

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, in-service distributions at age 59 ½ 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 21st 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 always vested 100% 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 used forfeitures from the plan of \$4,679 and \$6,106 in 2025 and 2024, respectively. The balances of forfeitures available at March 31, 2025 and 2024 was \$0. The District's contributions to the plan totaled \$221,687 for 2025 and \$244,628 for 2024. Employees' contributions to the plan totaled \$39,261 for 2025 and \$37,083 for 2024.

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, 2025.

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.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

During the current fiscal year, the District implemented GASB Statement No. 101, *Compensated Absences*. This standard updates the recognition and measurement criteria for liabilities related to employee leave benefits, such as vacation and sick leave. Implementation of this standard resulted in the identification of an understatement of its previously reported liability for compensated absences.

Accordingly, a prior period adjustment was recorded to increase the compensated absences liability and decrease the beginning net position by \$101,982. The beginning net position previously reported as \$21,492,669 was restated to \$21,390,687 to reflect this change.

SUPPLEMENTARY INFORMATION

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

Schedules of Operating Revenues

Years Ended March 31

	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross Profit</u>	<u>Gross Profit Percentage</u>
2025				
Natural gas	\$ 7,668,639	\$ 3,832,827	\$ 3,835,812	50.0%
Propane	1,701,172	1,057,026	644,146	37.9%
Appliances and service	<u>1,396,985</u>	<u>1,494,837</u>	<u>(97,852)</u>	<u>-7.0%</u>
	<u>\$ 10,766,796</u>	<u>\$ 6,384,690</u>	<u>\$ 4,382,106</u>	40.7%
2024				
Natural gas	\$ 7,473,256	\$ 3,687,474	\$ 3,785,782	50.7%
Propane	1,472,562	859,596	612,966	41.6%
Appliances and service	<u>1,535,943</u>	<u>1,493,119</u>	<u>42,824</u>	<u>2.8%</u>
	<u>\$ 10,481,761</u>	<u>\$ 6,040,189</u>	<u>\$ 4,441,572</u>	42.4%

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

Schedules of Other Operating Revenues

Years Ended March 31

	2025		2024	
	Amount	Percent of Sales	Amount	Percent of Sales
Connection charges	\$ 30,920	0.3%	\$ 31,280	0.3%
Forfeited discounts	64,643	0.6%	89,822	0.9%
Miscellaneous revenues	1,380	0.0%	1,410	0.0%
Discounts taken	<u>3,084</u>	<u>0.0%</u>	<u>3,306</u>	<u>0.0%</u>
	<u>\$ 100,027</u>	0.9%	<u>\$ 125,818</u>	1.2%

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

Schedules of Other Operating Expenses

Years Ended March 31

	2025		2024	
	Amount	Percent of Sales	Amount	Percent of Sales
Transmission and distribution expense				
Repair and maintenance	\$ 404,901	3.8%	\$ 532,869	5.1%
Salaries	525,066	4.9%	488,681	4.7%
Engineering	34,156	0.3%	43,055	0.4%
	<u>964,123</u>	<u>9.0%</u>	<u>1,064,605</u>	<u>10.2%</u>
Customer accounting and collection expense				
Salaries	72,111	0.7%	66,614	0.6%
Supplies and expenses	67,082	0.6%	66,217	0.6%
Uncollectible accounts	65,821	0.6%	22,436	0.2%
	<u>205,014</u>	<u>1.9%</u>	<u>155,267</u>	<u>1.5%</u>
Sales promotions	<u>79,935</u>	<u>0.7%</u>	<u>77,725</u>	<u>0.7%</u>
General and administrative expense				
Employee benefits	1,377,322	12.8%	1,289,889	12.3%
Salaries	1,231,533	11.4%	1,172,288	11.2%
Insurance	321,988	3.0%	314,549	3.0%
Office supplies	173,963	1.6%	156,039	1.5%
Professional fees	94,342	0.9%	98,799	0.9%
Repairs and maintenance	78,128	0.7%	94,116	0.9%
Utilities and telephone	84,430	0.8%	82,958	0.8%
Other general and administrative	57,843	0.5%	53,800	0.5%
Commissioners expense	18,000	0.2%	18,000	0.2%
Transportation	1,296	0.0%	1,466	0.0%
Freight	250	0.0%	-	0.0%
Overhead capitalized to plant	(117,598)	-1.1%	(103,185)	-1.0%
	<u>3,321,497</u>	<u>30.8%</u>	<u>3,178,719</u>	<u>30.3%</u>
Depreciation	<u>701,027</u>	<u>6.5%</u>	<u>690,492</u>	<u>6.6%</u>
	<u>\$ 5,271,596</u>	<u>49.0%</u>	<u>\$ 5,166,808</u>	<u>49.3%</u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Schedule of Utility Plant in Service
March 31, 2025

	Cost April 1, 2024	Additions	Retirements	Cost March 31, 2025
Distribution plant				
Mains	\$ 13,481,543	\$ 39,255	\$ -	\$ 13,520,798
Service lines	4,304,373	72,799	-	4,377,172
Meters	2,951,960	182,680	-	3,134,640
	<u>20,737,876</u>	<u>294,734</u>	<u>-</u>	<u>21,032,610</u>
Intangible plant	<u>16,958</u>	<u>-</u>	<u>-</u>	<u>16,958</u>
Propane plant	<u>3,154,683</u>	<u>68,598</u>	<u>-</u>	<u>3,223,281</u>
General plant				
Land and right-of-ways	382,406	-	-	382,406
Buildings	1,752,767	-	-	1,752,767
Equipment	561,737	20,825	-	582,562
Furniture and fixtures	621,761	22,956	-	644,717
Automobiles and trucks	1,418,157	263,462	-	1,681,619
	<u>4,736,828</u>	<u>307,243</u>	<u>-</u>	<u>5,044,071</u>
	<u>\$ 28,646,345</u>	<u>\$ 670,575</u>	<u>\$ -</u>	<u>\$ 29,316,920</u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Schedule of Utility Rates
March 31, 2025

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.

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.

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

The number of natural gas customers at March 31, 2025 and 2024 is as follows:

	2025	2024
Residential	7,028	6,973
Commercial	492	488
Public authority and religious	393	394
Industrial and interruptible	32	31
	<u>7,945</u>	<u>7,886</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, 2025, and the related notes to the financial statements, and have issued our report thereon dated July 15, 2025.

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 identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2025-001 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 responses.

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.

ClearPoint CPAs PC

Greeneville, Tennessee
July 15, 2025

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Schedule of Findings and Responses
Year Ended March 31, 2025

Findings - Financial Statement Audit

Significant Deficiencies - Internal Control Over Financial Reporting

2025-001 - 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, 2025

Prior Year Financial Statement Findings

<u>Prior Year Finding Number</u>	<u>Finding Title</u>	<u>Status/ Current Year Finding Number</u>
2024-001	Segregation of Duties (original finding #2016-001)	Repeated/2025-001



202 Park Boulevard – PO Box 667
Rogersville, TN 37857
(423) 272-8841 • (423) 246-4212 • (423) 357-8585
www.hcgas.com

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Management's Corrective Action Plan
March 31, 2025

2025-001 - 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