

INTERIOR ALASKA NATURAL GAS UTILITY

Comparative Financial Statements and Compliance Section
(With Independent Auditor's Reports Thereon)

Years Ended June 30, 2024 and 2023

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INTERIOR ALASKA NATURAL GAS UTILITY

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Independent Auditor's Report

Members of the Board
Interior Alaska Natural Gas Utility
Fairbanks, Alaska

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Interior Alaska Natural Gas Utility (IGU), a discretely presented component unit of the Fairbanks North Star Borough, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Interior Alaska Natural Gas Utility's basic 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 Interior Alaska Natural Gas Utility as of June 30, 2024 and 2023, 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Interior Alaska Natural Gas Utility, 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 Interior Alaska Natural Gas Utility'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.

Auditor's 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 auditor's 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 Interior Alaska Natural Gas Utility'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 Interior Alaska Natural Gas Utility'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 on pages 4-12 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2024, on our consideration of the Interior Alaska Natural Gas Utility'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 Interior Alaska Natural Gas Utility's internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Interior Alaska Natural Gas Utility's internal control over financial reporting and compliance.



Anchorage, Alaska
October 18, 2024

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis

Year Ended June 30, 2024

Overview of the Financial Statements

The Statement of Net Position of Interior Alaska Natural Gas Utility (the Utility/IGU) and Statement of Revenues, Expenses, and Change in Net Position presented in this management's discussion and analysis are on a comparative basis. The financial statements contain three sections: management's discussion and analysis, comparative financial statements, and notes to comparative financial statements. IGU operations are business-type activities and follow enterprise fund accounting. IGU is a discreetly presented component unit of the Fairbanks North Star Borough (Borough). Complete financial statements of the Borough can be obtained by contacting the Borough Clerk's Office at 907 Terminal Street, PO Box 71267, Fairbanks, Alaska 99707-1267; phone number 907-459-1000 or on the web at <https://www.fnsb.gov/800/Audit-Budget-Reports>.

Comparative Financial Statements

Statement of Net Position reports assets, deferred outflows of resources, liabilities, and net position at year end. Net position is reported as: net investment in capital assets, restricted, and unrestricted.

Statement of Revenues, Expenses, and Change in Net Position reported revenues, expenses, and resulting change in net position during the reporting period.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position use the accrual basis of accounting and economic resources measurement focus.

Statement of Cash Flows reports sources and uses of cash and change in cash and cash equivalents resulting from our activities during the reporting period.

Notes to Comparative Financial Statements provides more information to better understand the amounts reported in the basic financial statements.

Management's Discussion and Analysis

This section contains an analysis of the financial position and results of operations for the period July 1, 2023 to June 30, 2024. The Management's Discussion and Analysis (MD&A) section helps the reader focus on significant financial matters and provides additional information regarding IGU's activities. For best understanding, read this information with the Report of Independent Auditors, the audited comparative financial statements and the accompanying notes.

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

Financial Highlights

IGU's assets and deferred outflows of resources exceeded its liabilities at June 30, 2024 by \$38 million. June 30, 2024 unrestricted net position was \$20 million. The unrestricted net position was available for future financial needs. Of the unrestricted net position, \$1 million is reserved for debt obligations.

Financial Analysis

Following are IGU's total assets and deferred outflows of resources, liabilities and net position at June 30, 2024 and June 30, 2023:

| | June 30, 2024 | June 30, 2023 | Increase (Decrease) |
|--|--------------------------|--------------------------|--------------------------------|
| Current assets | \$ 25,748,134 | 15,188,909 | 10,559,225 |
| Property, plant and equipment, net of depreciation | 163,740,786 | 159,996,035 | 3,744,751 |
| Total assets | <u>189,488,920</u> | <u>175,184,944</u> | <u>14,303,976</u> |
| Deferred outflows of resources | 6,198,634 | 6,660,985 | (462,351) |
| Total assets and deferred outflows of resources | <u>\$ 195,687,554</u> | <u>181,845,929</u> | <u>13,841,625</u> |
| Current liabilities | \$ 3,667,826 | 2,728,309 | 939,517 |
| Noncurrent liabilities | 153,742,639 | 154,331,912 | (589,273) |
| Total liabilities | <u>157,410,465</u> | <u>157,060,221</u> | <u>350,244</u> |
| Total net position | <u>38,277,089</u> | <u>24,785,708</u> | <u>13,491,381</u> |
| Total liabilities and net position | <u>\$ 195,687,554</u> | <u>181,845,929</u> | <u>13,841,625</u> |

Current assets were \$10.6 million higher at June 20, 2024 compared to June 30, 2023 as outlined below:

| | June 30, 2024 | June 30, 2023 | Increase (Decrease) |
|---|--------------------------|--------------------------|--------------------------------|
| Cash | \$ 2,078,123 | 4,642,823 | (2,564,700) |
| Cash – restricted construction funds | 998,998 | 3,224,506 | (2,225,508) |
| Investments – Marketable Securities | 15,312,882 | - | 15,312,882 |
| Accounts receivable, net of allowance for doubtful account (\$75,000, 2024 and 2023) | 1,338,894 | 1,104,109 | 234,785 |
| Liquefied natural gas inventory | 3,219,720 | 3,684,515 | (464,795) |
| Material and supplies inventory | 1,902,627 | 1,734,831 | 167,796 |
| Deposits and other current assets | 896,890 | 798,125 | 98,765 |
| Total current assets | <u>\$ 25,748,134</u> | <u>15,188,909</u> | <u>10,559,225</u> |

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

- **Cash** balances were \$2.6 million lower on June 30, 2024 compared to June 30, 2023 largely as a result of purchasing new cryogenic trailers and using operating cash for an early construction season.
- **Restricted cash** decreased \$2.2 million due to the continued construction of mains and new services related to the IEP project. The remaining balance is intended for debt service and is not available for general use.
- **Investments - Marketable Securities** increased \$15.3 million due to receiving a tax credit from the State of Alaska and investing those funds in marketable securities; the prior year had no investments in marketable securities.
- **Accounts receivable** increased \$235 thousand due to recording a receivable due from a federal grant. The federal grant is a cost reimbursable grant.
- **Liquefied Natural Gas (LNG) inventory** decreased \$465 thousand. The decrease is due to transportation issues during the year that resulted in lower-than-anticipated inventory levels.
- **Materials and supplies inventory** increased \$168 thousand due to purchasing additional meters and supplies for the upcoming construction season.
- **Deposits and other current assets** increased \$99 thousand primarily due to increased prepaid insurance costs.

Property, plant & equipment balances were \$3.7 million higher on June 30, 2024, compared to June 30, 2023. The following schedule outlines the current year activity:

| | June 30, 2024 | June 30, 2023 | Increase (Decrease) |
|--|--------------------------|--------------------------|--------------------------------|
| Gas plant in service, at cost | \$ 179,693,305 | 171,340,053 | 8,353,252 |
| Less: accumulated provision for depreciation and amortization | 24,130,297 | 18,975,271 | (5,155,026) |
| Net property, plant and equipment in service | 155,563,008 | 152,364,782 | 3,198,226 |
| Gas plant held for future use, at cost | 258,846 | 258,846 | - |
| Construction work in progress | 7,918,932 | 7,372,407 | 546,527 |
| Total property, plant and equipment | \$ 163,740,786 | 159,996,035 | 3,744,751 |

- **Gas plant in service, at cost** increased \$8.35 million. \$3.79 million of the increase is due to mains and services being put into service and \$4.21 million is due to the purchase of new cryogenic trailers. The additional \$350 thousand is a combination of various other small capital projects completed throughout the year.
- **Gas plant held for future use, at cost** remained unchanged for the year.
- **Construction work in progress** increased \$547 thousand due to the spring weather allowing construction activities to begin early; this was not the case in the previous year.

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

Deferred outflows of resources decreased \$462 thousand due to amortization of the acquisition adjustment described in the Deferred Outflows of Resources section of the Summary of Significant Accounting Policies footnote.

Current liabilities were \$940 thousand higher on June 30, 2024, compared to June 30, 2023, as outlined below:

| | June 30, 2024 | June 30, 2023 | Increase (Decrease) |
|---------------------------------------|--------------------------|--------------------------|--------------------------------|
| Current maturities of long-term debt | \$ 521,982 | 581,369 | (59,387) |
| Accrued wages and burden | 207,233 | 186,368 | 20,865 |
| Accounts payable | 2,447,520 | 1,444,982 | 1,002,538 |
| Construction payables | 444,414 | 32,549 | 411,865 |
| Other current and accrued liabilities | 46,677 | 483,041 | (436,364) |
| Total current liabilities | \$ 3,667,826 | 2,728,309 | 939,517 |

- **Current portion of long term debt** decreased \$59 thousand. The decrease is related to one equipment loan that will mature in fiscal year 2025.
- **Accrued wages and burden** increased \$21 thousand. The increase is due to IGU creating new positions during the year for control room operations.
- **Accounts payable** increased \$1 million. The increase is primarily due to payments on new cryogenic trailers.
- **Construction payable** increased \$412 thousand. The payable is related to construction activities and is higher due to more construction activities commencing earlier than the previous year.
- **Other current and accrued liabilities** decreased \$436 thousand. The decrease is related to paying two reduced contingent liabilities associated with alleged probable Pipeline Hazardous Materials Safety Administration violations. The violation assessments have been finalized.

Noncurrent liabilities were \$544 thousand lower on June 30, 2024, compared to June 30, 2023, as outlined below:

| | June 30, 2024 | June 30, 2023 | Increase (Decrease) |
|---|--------------------------|--------------------------|--------------------------------|
| Long-term debt, less current maturities: | | | |
| Revenue bonds payable (Series 2020A), net | | | |
| unamortized bond premium & issuance costs | \$ 11,874,115 | 12,166,582 | (292,467) |
| AIDEA term loan | 139,000,000 | 139,000,000 | - |
| Land contract – GVEA | 1,095,293 | 1,284,074 | (188,781) |
| Mt. McKinley Bank commercial loan | 1,773,231 | 1,857,283 | (84,052) |
| Equipment loans payable | - | 23,973 | (23,973) |
| Total noncurrent liabilities | \$ 153,742,639 | 154,331,912 | (589,273) |

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

- **Revenue bonds payable (Series 2020A)** decreased \$292 thousand due to a principal payment of \$215 thousand on the Series 2020A bonds and the remainder is associated with the amortization of the bond premium and issuance costs.
- **AIDEA term loan** remained the same. The loan is related to the Interior Energy Project and repayment is deferred to 2032.
- **Land contract - GVEA** decreased \$189 thousand due to the scheduled annual payment on the land contract. The land contract is related to the land at the North Pole LNG storage facility.
- **Mt. McKinley Bank commercial loan** decreased \$84 thousand due to the scheduled payments on the commercial loan. The commercial loan is related to the office building located at 2525 Phillips Field Road, Fairbanks, AK.
- **Equipment loans payable** decreased \$24 thousand due to the scheduled payments on the loan and the remaining loan maturing in August 2024.

Net position increased \$13.5 million during the period ended June 30, 2024, as outlined below:

| | |
|---|-----------------------------|
| Beginning net position (July 1, 2023) | \$ 24,785,708 |
| Reductions - | |
| Net change resulting from operating and non-operating activities | <u>13,491,381</u> |
| Ending net position (June 30, 2024) | \$ <u><u>38,277,089</u></u> |

Net position at June 30, 2024 was categorized as follows:

| | |
|----------------------------------|-----------------------------|
| Net investment in capital assets | \$ 18,132,010 |
| Unrestricted | <u>20,145,079</u> |
| Net position | \$ <u><u>38,277,089</u></u> |

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INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

Following are IGU's operating revenues and expenses, and net non-operating revenues (expenses) for the period July 1, 2023, to June 30, 2024, with prior year comparison, June 30, 2023:

| | <u>June 30,</u> <u>2024</u> | <u>June 30,</u> <u>2023</u> | <u>Increase</u> <u>(Decrease)</u> |
|--|--------------------------------|--------------------------------|--------------------------------------|
| Operating revenues: | | | |
| Residential sales | \$ 4,591,487 | 3,102,991 | 1,488,496 |
| Commercial sales | 18,410,444 | 16,802,813 | 1,607,631 |
| Interruptible sales | 5,991,939 | 5,299,431 | 692,508 |
| Other operating revenues | 903,964 | 799,433 | 104,531 |
| Total operating revenues | <u>29,897,834</u> | <u>26,004,668</u> | <u>3,893,166</u> |
| Operating expenses: | | | |
| Natural gas purchases | 11,982,343 | 10,032,718 | 1,949,625 |
| Trucking | 3,542,946 | 3,032,692 | 510,254 |
| Electricity | 1,697,209 | 1,525,432 | 171,777 |
| Gas liquefaction expenses | 2,948,238 | 2,759,798 | 188,440 |
| Distribution operations | 525,349 | 372,435 | 152,914 |
| Distribution maintenance | 156,759 | 189,081 | (32,322) |
| Storage and vaporization operations | 1,574,429 | 1,237,489 | 336,940 |
| Storage and vaporization maintenance | 197,734 | 239,935 | (42,201) |
| Engineering | 166,461 | 161,627 | 4,834 |
| Talkeetna maintenance | 10,241 | 13,573 | (3,332) |
| Customer services | 448,249 | 391,962 | 56,287 |
| Administrative and general expenses | 3,182,683 | 2,968,098 | 214,585 |
| Taxes | 292,493 | 226,244 | 66,249 |
| Interest expense | 655,655 | 720,350 | (64,695) |
| Depreciation | 5,187,027 | 5,078,205 | 108,822 |
| Amortization | 462,351 | 462,351 | - |
| Total operating expenses | <u>33,030,167</u> | <u>29,411,990</u> | <u>3,618,177</u> |
| Operating loss | (3,132,333) | (3,407,322) | 274,989 |
| Non-operating revenues (expenses): | | | |
| Gain from disposition of property, plant and equipment | 2,650 | 14,089 | (11,439) |
| Interest and dividend income | 390,496 | 101,625 | 288,871 |
| Grant income - federal | 699,646 | - | 699,646 |
| State of Alaska - LNG tax credit | 15,000,000 | - | 15,000,000 |
| Other income | 530,922 | (310,576) | 841,498 |
| Total non-operating revenues (expenses) | <u>16,623,714</u> | <u>(194,862)</u> | <u>16,818,576</u> |
| Change in net position | 13,491,381 | (3,602,184) | 17,093,565 |
| Net position – beginning of period | <u>24,785,708</u> | <u>28,387,892</u> | <u>(3,602,184)</u> |
| Net position – end of period | \$ <u>38,277,089</u> | <u>24,785,708</u> | <u>13,491,381</u> |

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

Operating revenues for the period July 1, 2023 to June 30, 2024.

- **Residential sales** include tariff rate approved sales for customers classified as residential. Residential sales increased \$1.5 million from previous year due to addition of new customers and a rate increase of \$0.107 per hundred cubic feet.
- **Commercial sales** include tariff rate-approved sales for customers classified as small commercial and large commercial and sales agreements for commercial customers outside of the utility service area. Commercial sales increased \$1.6 million from the previous year largely due to addition of new customers and a rate increase of \$0.106 per hundred cubic feet.
- **Interruptible sales** include tariff rate approved sales for customers classified as small commercial interruptible and tariff approved sales agreements for large commercial interruptible. Interruptible sales increased \$693 thousand due to customers choosing to consume gas instead of their alternative fuels (i.e. heating oil or coal) for cost reasons and a rate increase of \$0.102 per hundred cubic feet.
- **Other operating revenue** includes service charge that is a fixed charge at various amounts dependent upon customer classification, application fees for service or transfer of service, penalty charges for late payments and other direct utility services. Other operating revenues increased \$105 thousand largely due to increased number of service charges resulting from additional new customers and gas application fees for new customers.

Operating expenses for the period July 1, 2023 to June 30, 2024.

- **Natural gas purchases** represent the cost of gas consumed by all customers. Natural gas purchases increased \$1.95 million from the previous year due to increased sales from new customers and the purchase of more third-party gas than in the previous year.
- **Trucking** represents the cost of transporting LNG from the LNG plant to the LNG storage facilities. Trucking increased \$510 thousand due to increased sales from new customers and increased trucking costs.
- **Electricity** represent the cost of electricity used in the liquefaction of natural gas process. Electricity increased \$172 thousand from previous year due to increased sales from new customers and an increase to electric costs.
- **Gas liquefaction expenses** represent the cost to operate and maintain the equipment to liquefy natural gas for transport to Fairbanks, North Pole and other destinations in Alaska (AK). Gas liquefaction expenses increased \$188 thousand for the year largely due to increased costs related to maintenance and unexpected maintenance on LNG trailers.
- **Distribution operations** include costs related to general operations of the distribution system located in Fairbanks and North Pole, AK. Distribution operations increased \$152 thousand for the year largely due to increased costs in labor from the previous year.
- **Distribution maintenance** includes costs related to maintenance operations of the distribution system located in Fairbanks and North Pole, AK. Distribution maintenance decreased by \$32 thousand for the year, largely due to less labor and maintenance activities from the prior year.

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

- **Storage and vaporization operations** includes costs related to general operations of the storage and vaporization system located in Fairbanks, AK, North Pole, AK and Talkeetna, AK and a storage system located in Houston, AK. Storage and vaporization operations increased \$337 thousand for the year. The increase is related to increased gas usage expense for vaporization of LNG for distribution due to higher sales, increased electricity expense related to the operation of the storage facilities, and the creation of four additional positions related to the operation of the storage facilities.
- **Storage and vaporization maintenance** includes costs related to general maintenance of the storage and vaporization systems located in Fairbanks, AK, North Pole, AK, and Talkeetna, AK and a storage system located in Houston, AK. Storage and vaporization maintenance decreased \$42 thousand for the year. This is largely due to more labor in Operations occurring than Maintenance activities from prior years at storage site 3 and site 4.
- **Engineering** includes cost for in-house engineering related to operations and maintenance, and state/federal regulation compliance. Engineering increased \$5 thousand from the previous year due to additional labor in the engineering staff and an increase in training and seminars from the previous year.
- **Talkeetna maintenance** includes cost for day to day maintenance of the stand alone storage and vaporization system located at the Talkeetna Lodge, vicinity of Talkeetna, Alaska. Maintenance costs decreased \$3 thousand for the year. No significant event caused this decrease.
- **Customer service** includes cost for servicing of customer accounts, meter reading and general customer support. Customer service increased \$56 thousand for the year due to increased credit card payment fees due to increased payments online.
- **Administrative and general expenses** include costs related to the board of directors, management, administrative staff and general operations such as facilities costs and supplies that are not directly related to other operating departments. Administrative and general expenses increased \$281 thousand for the year largely due to increased cost of labor, legal fees, employee benefits and additional staff.
- **Depreciation and amortization** represents the allocation of the cost of property, plant and equipment assets over the useful life of the assets and amortization of the gas plant acquisition adjustment. Depreciation increased \$109 thousand due to new distribution mains and services being placed into service and previous year assets placed into service having accumulated a full year of depreciation.

Fixed charges for the period July 1, 2023 to June 30, 2024.

- **Interest expense** is the cost of financing current equipment and expansion projects. Interest expense decreased by \$65 thousand and is due to a loan maturing in the previous year. See long-term debt footnotes to comparative financial statements.
- **Gain from disposal of property, plant and equipment** is the result of disposing of assets throughout the year. This decreased by \$11 thousand due to less assets being disposed of than in the previous year.

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

- **Interest and dividend income** increased by \$289 thousand due to more interest being earned on cash investments than the previous year.
- **State of Alaska - LNG tax credit** increased by \$15 million due to the utility receiving a one-time \$15 million tax credit from the State of Alaska for the construction of a new LNG tank.
- **Net non-operating revenues (expenses)** increased by \$841 thousand due to the utility's collaboration with the Department of Transportation, Pipeline Hazardous Materials and Safety Administration (PHMSA) regarding two Notice of Probable Violations (NOPV). The two NOPVs, totaling \$450 thousand, were recorded in the previous year as contingent liabilities. In 2024, the utility, in conjunction with PHMSA, rectified the two NOPVs, and as a result, the two NOPVs were reduced by \$360 thousand. Other items resulting in the increase were proceeds from contractors' insurance for damaging LNG trailers.

BASIC FINANCIAL STATEMENTS

INTERIOR ALASKA NATURAL GAS UTILITY
COMPARATIVE STATEMENTS OF NET POSITION

June 30, 2024 and 2023

| <u>Assets and Deferred Outflows of Resources</u> | 2024 | 2023 |
|--|----------------|-------------|
| Property, plant and equipment: | | |
| Property, plant and equipment in service, at cost | \$ 179,693,305 | 171,340,053 |
| Less: accumulated provision for depreciation | 24,130,297 | 18,975,271 |
| Net property, plant and equipment in service | 155,563,008 | 152,364,782 |
| Gas plant held for future use, at cost | 258,846 | 258,846 |
| Construction work in progress | 7,918,932 | 7,372,407 |
| Net property, plant and equipment | 163,740,786 | 159,996,035 |
| Current assets: | | |
| Cash | 2,078,123 | 4,642,823 |
| Cash - <i>restricted construction funds</i> | 998,998 | 3,224,506 |
| Investments -marketable securities | 15,312,882 | - |
| Accounts receivable, net | 1,338,894 | 1,104,109 |
| Liquefied natural gas inventory | 3,219,720 | 3,684,515 |
| Materials and supplies inventory | 1,902,627 | 1,734,831 |
| Deposits and other current assets | 896,890 | 798,125 |
| Total current assets | 25,748,134 | 15,188,909 |
| Deferred outflows of resources: | | |
| Gas plant acquisition adjustment | 6,198,634 | 6,660,985 |
| Total assets and deferred outflows of resources | \$ 195,687,554 | 181,845,929 |
| <u>Liabilities and Net Positions</u> | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 521,982 | 581,369 |
| Accrued wages and burden | 207,233 | 186,368 |
| Accounts payable | 2,447,520 | 1,444,982 |
| Construction payable | 444,414 | 32,549 |
| Other current and accrued liabilities | 46,677 | 483,041 |
| Total current liabilities | 3,667,826 | 2,728,309 |
| Noncurrent liabilities: | | |
| Long-term debt, less current maturities: | | |
| Revenue bonds payable (Series 2020A), net unamortized bond premium and issuance costs | 11,874,115 | 12,166,582 |
| AIDEA term loan | 139,000,000 | 139,000,000 |
| Land contract - GVEA | 1,095,293 | 1,284,074 |
| Mt. McKinley Bank commercial loan | 1,773,231 | 1,857,283 |
| Equipment loans payable | - | 23,973 |
| Total noncurrent liabilities | 153,742,639 | 154,331,912 |
| Net position: | | |
| Net investment in capital assets | 18,132,010 | 16,670,527 |
| Unrestricted | 20,145,079 | 8,115,181 |
| Total net position | 38,277,089 | 24,785,708 |
| Total liabilities and net position | \$ 195,687,554 | 181,845,929 |

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

INTERIOR ALASKA NATURAL GAS UTILITY

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2024 and 2023

| | 2024 | 2023 |
|--|---------------|-------------|
| Operating revenues: | | |
| Residential sales | \$ 4,591,487 | 3,102,991 |
| Commercial sales | 18,410,444 | 16,802,813 |
| Interruptible sales | 5,991,939 | 5,299,431 |
| Other operating revenue | 903,964 | 799,433 |
| Total operating revenues | 29,897,834 | 26,004,668 |
| Operating expenses: | | |
| Natural gas purchases | 11,982,344 | 10,032,718 |
| Trucking | 3,542,946 | 3,032,692 |
| Electricity | 1,697,209 | 1,525,432 |
| Gas liquefaction expenses | 2,948,238 | 2,759,798 |
| Distribution operations | 525,349 | 372,435 |
| Distribution maintenance | 156,759 | 189,081 |
| Storage and vaporization operations | 1,574,429 | 1,237,489 |
| Storage and vaporization maintenance | 197,734 | 239,935 |
| Engineering | 166,461 | 161,627 |
| Talkeetna maintenance | 10,241 | 13,573 |
| Customer services | 448,249 | 391,962 |
| Administrative and general expenses | 3,182,683 | 2,968,098 |
| Taxes | 292,493 | 226,244 |
| Interest expense | 655,655 | 720,350 |
| Depreciation | 5,187,026 | 5,078,205 |
| Amortization | 462,351 | 462,351 |
| Total operating expenses | 33,030,167 | 29,411,990 |
| Operating loss | (3,132,333) | (3,407,322) |
| Non-operating revenues (expenses): | | |
| Gain from disposition of property, plant and equipment | 2,650 | 14,089 |
| Interest and dividend income | 390,496 | 101,625 |
| Grant income - federal | 699,646 | - |
| State of Alaska - LNG tax credit | 15,000,000 | - |
| Other income (expenses) | 530,922 | (310,576) |
| Non-operating revenues (expenses) total | 16,623,714 | (194,862) |
| Change in net position | 13,491,381 | (3,602,184) |
| Net position - beginning of year | 24,785,708 | 28,387,892 |
| Net position - end of period | \$ 38,277,089 | 24,785,708 |

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

INTERIOR ALASKA NATURAL GAS UTILITY
COMPARATIVE STATEMENTS OF CASH FLOWS

Years Ended June 30, 2024 and 2023

| | 2024 | 2023 |
|---|---------------|--------------|
| Cash flows from (for) operating activities: | | |
| Cash received from customers | \$ 29,888,336 | 25,832,871 |
| Cash received from LNG storage tax credit | 15,000,000 | - |
| Cash received from federal grants | 699,646 | - |
| Cash paid to suppliers | (21,650,984) | (21,216,289) |
| Cash paid to employees | (3,795,289) | (3,257,441) |
| | 20,141,709 | 1,359,141 |
| Cash flows from (for) capital and related financing activities: | | |
| Principal payments on long-term debt | (616,362) | (439,786) |
| Interest payments | (687,954) | (752,649) |
| Proceeds from disposal of property, plant and equipment | 2,650 | 14,089 |
| Construction work in progress | (322,390) | (49,554) |
| Property, plant and equipment additions | (8,385,476) | (5,177,813) |
| | (10,009,532) | (6,405,713) |
| Cash flows from (for) investing activities: | | |
| Purchase of investments | (15,312,882) | - |
| Interest and dividends received | 390,497 | 101,625 |
| | (14,922,385) | 101,625 |
| Net cash from (for) investing activities | (14,922,385) | 101,625 |
| Net change in cash and restricted cash | (4,790,208) | (4,944,947) |
| Cash and restricted cash - beginning of year | 7,867,329 | 12,812,276 |
| Cash and restricted cash - end of year | \$ 3,077,121 | 7,867,329 |
| Included in cash and restricted cash: | | |
| Cash | \$ 2,078,123 | 4,642,823 |
| Cash - restricted construction funds | 998,998 | 3,224,506 |
| | \$ 3,077,121 | 7,867,329 |

INTERIOR ALASKA NATURAL GAS UTILITY
COMPARATIVE STATEMENTS OF CASH FLOWS, CONTINUED

| | 2024 | 2023 |
|--|----------------|-------------|
| Reconciliation of operating loss to net cash from (for) operating activities | | |
| Operating loss | \$ (3,132,333) | (3,407,322) |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 5,649,378 | 5,540,556 |
| Interest expense | 655,655 | 720,350 |
| Other income (expenses) | 530,922 | (310,576) |
| Grant income - federal | 699,646 | |
| State of Alaska - LNG tax credit | 15,000,000 | |
| (Increase) decrease in assets | | |
| Accounts receivable, net | (234,785) | (334,017) |
| Liquefied natural gas inventory | 464,795 | (791,132) |
| Materials and supplies inventory | 20,157 | (36,337) |
| Deposits and other current assets | (98,765) | (111,586) |
| Increase (decrease) in liabilities | | |
| Accrued wages and burden | 20,865 | 472,383 |
| Accounts payable | 1,002,538 | (390,831) |
| Other current and accrued liabilities | (436,364) | 7,653 |
| Total adjustments | 23,274,042 | 4,766,463 |
| Net cash provided by (used in) operating activities | \$ 20,141,709 | 1,359,141 |

Noncash Investing and Financing Activities

During the year ended June 30, 2024 IGU reclassified meters, distribution pipe, and pipe fittings installed from materials and supplies inventory to the proper asset account in the amount of \$809,590.

For the years ended June 30, 2024 and 2023, Construction payable included costs capitalized to construction work in process totaling \$444,414, and \$32,549, respectively.

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

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

June 30, 2024 and 2023

I. DESCRIPTION OF ORGANIZATION

The Interior Alaska Natural Gas Utility, doing business as the Interior Gas Utility (IGU), was formed in 2012 by the Fairbanks North Star Borough (Borough) in cooperation with the City of Fairbanks and the City of North Pole. The goal of the organization is to lower energy costs for the Borough area by bringing natural gas to Interior Alaska. IGU is governed by a seven-member board initially appointed by the Borough, the City of Fairbanks and the City of North Pole serving staggered terms. All seats have 3 year terms and four seats on the board are elected while three seats on the board are appointed, one by each of the three municipalities.

In 2012 IGU received a contract from the Borough to build the framework for the operation of the utility, including securing funding, developing a capital program to build out the necessary infrastructure, and establishing a public outreach protocol to assist homeowners in converting to natural gas. IGU contracted with Stantec Consulting Services, Inc. (previously MWH Americas, Inc.) to provide project management services for the startup of IGU. IGU also initiated engineering studies for the project. From inception through April 3, 2014, IGU performed services under the Borough contract. After April 3, 2014, IGU funded operations through the contract with the Borough and funded the design, right-of-way, permitting, management services and other contractual services provided to advance construction of the project using accumulated net profits, accounts payable and a line of credit provided by the Alaska Industrial Development and Export Authority (AIDEA).

On December 20, 2013, IGU was awarded a certificate of public convenience and necessity (CPCN) by the Regulatory Commission of Alaska determining a service area within the Borough. On June 13, 2018, IGU acquired all rights, title and interest in Alaska Natural Gas Co., LLC (Pentex).

Prior to June 30, 2020, the consolidated financial statements of IGU, a discretely presented component unit of the Borough, included the accounts of a business holding entity that included the accounts of Fairbanks Natural Gas, LLC (FNG), which operated a natural gas distribution utility for the residents and businesses of Fairbanks, Alaska; Titan Alaska LNG, LLC (Titan), which operated a natural gas liquefaction plant in Point Mackenzie, Alaska; Arctic Energy Transportation, LLC (AET), a liquefied natural gas fuel provider for the transportation industry with locations in Fairbanks and Houston, Alaska; and Polar LNG, LLC (Polar), the project lead for an abandoned project on the North Slope located in the vicinity of Dead Horse, Alaska. The four companies were owned and managed by Pentex and IGU owned and managed Pentex. All material intercompany balances and transactions were eliminated in the consolidated financial statements for the year ended June 30, 2020. As of July 1, 2020, all the IGU owned companies were dissolved and such accounts and operations were consolidated under one unified utility, IGU.

Complete financial statements of the Borough can be obtained by contacting the Borough Clerk's Office at 907 Terminal Street, PO Box 71267, Fairbanks, Alaska 99707-1267; phone number 907-459-1000 or on the web at <https://www.fnsb.gov/800/Audit-Budget-Reports>.

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - Enterprise Fund Accounting - In preparing the comparative financial statements in conformity with generally accepted accounting principles, IGU is subject to the accounting requirements as set forth by the Governmental Accounting Standards Board (GASB). Accordingly, the financial activities of IGU are reported using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when goods or services are received or the related liability is incurred.

Regulation - The accounting records of the company conform to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission for natural gas companies subject to provisions of the Natural Gas Act. IGU is exempt from economic regulation by the Regulatory Commission of Alaska (RCA) and the IGU Board of Directors is responsible for the governance and oversight of IGU.

Use of Estimates - In preparing the comparative financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Plant Additions and Retirements - Additions and replacements of property, plant and equipment are at original cost. Plant costs are comprised of contracted services, direct labor and materials, and capitalized costs. The capitalized costs include indirect overhead charges, certain general and administrative costs, costs of funds and other developmental costs. When property, plant and equipment are disposed of or otherwise retired, the original cost of the property, plus cost of retirement, less salvage value is charged against the net book value of the asset. Any gain or loss is recognized as income or expense in the year of disposition or retirement. Maintenance, repairs and renewals are charged to operations and maintenance expense. Renewals which extend the useful life of the property are capitalized.

Intangible assets - Intangible assets of IGU are capitalized at historical cost. Intangible assets with an indefinite life are not amortized but are tested annually for impairment or change in circumstances that could affect the nature of the asset. Other intangible assets will be amortized over the useful life of those assets.

Cash - Cash includes cash on hand and amounts held in checking accounts which are not subject to withdrawal restrictions or penalties.

Restricted cash - Restricted cash includes cash on hand and amounts held in checking and savings accounts which are subject to withdrawal restrictions.

Investments - Investments are reported at fair value (generally based on quoted market prices). IGU has adopted formal investment policies establishing limits on investment choices to manage credit risk or limits on investment maturities for managing the company's exposure to fair value losses arising from increasing interest rates (interest rate risk).

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

Fair value of financial instruments - IGU categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are based on quoted market prices within active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

IGU has the following recurring fair value measurements as of June 30, 2024:

U.S. government agencies securities of \$15,312,882 are valued by surveys of the dealer community, relevant trade data, benchmark quotes and spreads, as determined by observed market data (Level 2 inputs). \$15,312,882 of money market funds are reported at amortized cost, which management believes to approximate fair value.

Accounts Receivable and Other receivables - Accounts receivable and other receivables are recorded at the amount the company expects to collect. Management determines the allowance for doubtful accounts by identifying troubled accounts, using historical experience applied to an aging of the accounts and regularly evaluating the individual accounts. Accounts receivable are written off when deemed uncollectible and recoveries of previously written off accounts are recorded as revenue when received.

Inventories - Inventories of liquefied natural gas and materials and supplies are recorded at cost. Cost is determined by the first in, first out method.

Accumulated Provision for Depreciation and Amortization - Provision has been made for depreciation and amortization on a straight-line basis using the following ranges of annual rates:

| | |
|---|---------|
| Distribution, storage and vaporization | 2 – 4% |
| LNG production equipment | 2 – 4% |
| General plant: | |
| Structures and improvements | 2 – 15% |
| Transportation and power-operated equipment | 2 – 17% |
| Furniture and office equipment | 6 – 28% |

Deferred Outflows of Resources - Deferred outflows of resources represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The company only has one item that qualifies for reporting in this category, which is the deferred amount representing the acquisition adjustments reported in the statement of net position. This deferred outflow results from the difference between the cost to purchase the ownership interest in Pentex and the net book value of the underlying assets of the company at the purchase date. This amount is deferred and amortized over the life of the associated assets purchased.

Net Position - The implementation of Governmental Accounting Standards Board (GASB) Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position requires the company to categorize its net position. The company's net position is categorized as net investment in capital assets, restricted and unrestricted.

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

Environmental Issues - IGU's environmental issues policy is to record a liability when the likelihood of responsibility for pollution remediation activities such as site assessments and cleanup is probable and the costs are reasonably estimable. At June 30, 2024, there were no environmental issues meeting both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability.

Operating Revenues and Expenses - IGU considers all revenues and expenses except investment income, gains and losses from dispositions of property, plant and equipment and materials and supplies inventory, grant income, other income relating to line hit repairs, and extraordinary items to be part of its ongoing operations and classifies them as operating in the statement of revenues, expenses, and changes in net position.

Debt Premium, Discount, and Issuance Costs - When debt is issued at a premium or discount, the amounts will be recorded as a Unamortized Premium/Discount of Long-Term debt and be equitably amortized over the life of the debt instrument in monthly installments. The issuance cost of the debt will be recorded in Unamortized Issuance Cost and will be amortized over the life of the debt instrument in monthly installments.

Subsequent Events - The company has evaluated subsequent events through October 18, 2024 the date on which the financial statement was available to be issued.

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INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

III. PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment activities were as follows for the fiscal year ended June 30, 2024:

| | Balance at July 1, 2023 | Additions | Deletions | Balance at June 30, 2024 |
|---|----------------------------|-------------|-------------|-----------------------------|
| Nondepreciable components of property, plant and equipment: | | | | |
| Land | \$ 2,897,017 | - | - | 2,897,017 |
| Intangible Plant – CPCN | 729,676 | - | - | 729,676 |
| Gas plant held for future use | 258,846 | - | - | 258,846 |
| Construction work in progress | 7,372,407 | 3,404,206 | (2,857,681) | 7,918,932 |
| Total nondepreciable components | 11,257,946 | 3,404,206 | (2,857,681) | 11,804,471 |
| Depreciable components of property, plant and equipment: | | | | |
| Distribution, storage and vaporization | 151,034,992 | 3,809,023 | - | 154,844,015 |
| LNG production equipment | 8,094,189 | 15,398 | - | 8,109,587 |
| General plant: | | | | |
| Structures and improvements | 5,633,867 | - | - | 5,633,867 |
| Transportation power-operated equipment | 2,770,419 | 4,501,014 | (32,000) | 7,239,433 |
| Furniture and office equipment | 179,893 | 59,817 | - | 239,710 |
| Total depreciable components of property, plant and equipment | 167,713,360 | 8,385,252 | (32,000) | 176,066,612 |
| Less accumulated provision for depreciation: | | | | |
| Distribution, storage and vaporization | (14,978,382) | (4,234,744) | - | (19,213,126) |
| LNG production equipment | (2,669,962) | (605,415) | - | (3,275,377) |
| General plant: | | | | |
| Structures and improvements | (726,476) | (193,064) | - | (919,540) |
| Transportation and power-operated | (433,522) | (113,075) | 32,000 | (514,597) |
| Furniture and office equipment | (166,929) | (40,728) | - | (207,657) |
| Total accumulated provision for depreciation | (18,975,271) | (5,187,026) | 32,000 | (24,130,297) |
| Total depreciable components of property, plant and equipment | 148,738,089 | 3,198,226 | - | 151,936,315 |
| Net property, plant and equipment | \$ 159,996,035 | 6,602,432 | (2,857,681) | 163,740,786 |

Depreciation expense totaled \$5,187,026 and \$5,078,205 for property, plant and equipment for the fiscal years ended June 30, 2024 and 2023, respectively.

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

IV. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources at June 30, 2024 and 2023 consisted of a \$1,547,036 gas plant acquisition adjustment which resulted from the purchase of Pentex by AIDEA and a \$5,113,948 gas plant acquisition adjustment resulting from the purchase of Pentex by IGU. The acquisition adjustments will be recognized as amortization expense as follows:

| Year ending June 30: | Amount |
|-------------------------|---------------------|
| 2025 | \$ 462,351 |
| 2026 | 462,351 |
| 2027 | 462,351 |
| 2028-2032 | 2,311,753 |
| 2033-2037 | 2,104,485 |
| 2038-2042 | 355,838 |
| 2043-2047 | 14,909 |
| 2048-2052 | 14,909 |
| 2053-2056 | 9,687 |
| | <u>\$ 6,198,634</u> |

Amortization expense for the year ended June 30, 2024 was \$462,351.

V. ACCOUNTS RECEIVABLE

The accounts receivable balances as of June 30, 2024 and 2023, were as follows:

| | 2024 | 2023 |
|---------------------------------------|---------------------|------------------|
| Trade | \$ 1,413,894 | 1,179,109 |
| Less: allowance for doubtful accounts | 75,000 | 75,000 |
| | <u>\$ 1,338,894</u> | <u>1,104,109</u> |

At June 30, 2024 and 2023, all natural gas sales were billed.

VI. INVENTORIES

Inventories consisted of the following on June 30, 2024 and 2023:

| | 2024 | 2023 |
|------------------------|---------------------|------------------|
| Liquefied natural gas | \$ 3,219,720 | 3,684,515 |
| Materials and supplies | 1,902,627 | 1,734,831 |
| Total inventories | <u>\$ 5,122,347</u> | <u>5,419,346</u> |

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

VII. LONG-TERM DEBT

Long-term debt consisted of the following:

| | <u>Balance at July 1, 2023</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at June 30, 2024</u> | <u>Amounts due within one year</u> |
|---|--|------------------|------------------|---|--|
| \$11,790,000 Revenue bonds | | | | | |
| Series 2020A 5.0 to 5.25 percent | \$ 11,790,000 | - | (215,000) | 11,575,000 | 225,000 |
| AIDEA 0.25 percent term loan payable | 139,000,000 | - | - | 139,000,000 | - |
| Golden Valley Electric Association 5.0 percent promissory note | 1,463,754 | - | (179,679) | 1,284,075 | 188,781 |
| Mt. McKinley Bank 3.17 percent note payable | 1,938,451 | - | (80,992) | 1,857,459 | 84,228 |
| Wells Fargo Equipment Finance, Inc. 4.48 percent note payable | <u>164,662</u> | <u>-</u> | <u>(140,690)</u> | <u>23,972</u> | <u>23,972</u> |
| | <u>\$ 154,356,867</u> | <u>-</u> | <u>(616,361)</u> | <u>153,740,506</u> | <u>521,982</u> |
| Unamortized Bond issuance costs | (641,392) | | | (604,161) | |
| Unamortized Bond premium | <u>1,197,806</u> | | | <u>1,128,276</u> | |
| | <u>\$ 154,913,281</u> | | | <u>\$ 154,264,621</u> | |

The 5.0 to 5.25 percent revenue bonds were issued by AIDEA. AIDEA then lent the proceeds of the bonds to IGU pursuant to the terms of a Loan Agreement dated September 1, 2020, by and between the Authority and IGU, for the purpose of paying (1) a portion of the costs of the acquisition, construction, expansion, furnishing, and equipping of natural gas mains, residential and commercial natural gas service lines, and customer meter sets to be located in the Fairbanks North Star Borough, Alaska; (2) a portion of the costs of advancing the design of the acquisition, expansion, renovation, furnishing, and equipping of natural gas liquefaction facilities located in the Matanuska Susitna Borough, Alaska; (3) capitalized interest on the bonds; (4) amounts sufficient to fund the debt service reserve account; and (5) all or a portion of the costs incurred in connection with the issuance of the bonds, all as further described herein. The bonds are superior to any other liens or charges whatsoever and are secured by IGU's net revenues.

The 0.25 percent term loan payable to AIDEA is part of the Financing Agreement and has a borrowing limit of \$139,000,000. The term loan includes a payment deferral beginning June 13, 2018 and extending for a fifteen year period, and the loan accrues no interest during the deferral period. If it is determined after the deferral period ends that sufficient demand growth has not developed, the deferral period will be extended for an additional five year period, the demand deferral period, with interest only payments due. The term loan shall be paid in 420 monthly installments commencing on the first day of the first calendar month after the expiration of the deferral period or the demand deferral period, whichever is later. The term loan is secured by all of IGU's revenues and assets.

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

The 5.0 percent promissory note to Golden Valley Electric Association is payable in annual installments of \$252,982 including interest and becomes due on September 25, 2029. The note is secured by two parcels of land located in North Pole, Alaska.

The 3.17 percent note payable to McKinley Bank is payable in monthly installments of \$11,824 including interest and becomes due on June 5, 2041. The note is secured by land and building located at 2525 Phillips Field Road Fairbanks, Alaska.

The 4.48 percent note payable to Wells Fargo Equipment Finance, Inc. is payable in monthly installments of \$12,053 including interest and becomes due on August 29, 2024. The note is secured by three 2017 Heil LNG transport trailers.

Minimum annual payments for long-term debt are as follows:

| June 30: | Principal | Interest | Total |
|-----------|----------------|------------|-------------|
| 2025 | \$ 521,982 | 707,588 | 1,229,570 |
| 2026 | 520,158 | 684,056 | 1,204,214 |
| 2027 | 547,865 | 659,598 | 1,207,464 |
| 2028 | 571,158 | 633,805 | 1,204,964 |
| 2029 | 5,080,434 | 936,314 | 6,016,748 |
| 2030-2068 | 146,498,909 | 13,677,314 | 160,176,223 |
| | \$ 153,740,506 | 17,298,675 | 171,039,183 |

VIII. OPERATING LEASE

Operating lease terms are outlined as follows:

IGU leases land from Fisher's Fuel, Inc. The initial lease required annual payments starting at \$6,000 in the first year and increasing annually by 1.5 percent in each subsequent year for five years with two automatic five-year extensions. The lease was renewed for an additional five years in June 2022. Lease payments charged to expense totaled \$7,068 and \$6,963 for the fiscal years ended June 30, 2024 and 2023, respectively.

The following is a schedule of future minimum lease payments for operating leases as of June 30, 2024:

| June 30: | Principal |
|----------|-----------|
| 2025 | \$ 7,714 |
| 2026 | 7,282 |
| 2027 | 7,391 |
| | \$ 21,847 |

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

IX. NET POSITION

Net position consisted of the following at June 30:

| | 2024 | 2023 |
|---|----------------|---------------|
| Net investment in capital assets: | | |
| Total capital assets | \$ 163,740,786 | 159,996,035 |
| Gas plant acquisition adjustment | 6,198,634 | 6,660,985 |
| Materials and supply inventory | 1,902,627 | 1,734,831 |
| Restricted cash (AIDEA & bond proceeds remaining) | 998,997 | 3,224,506 |
| AIDEA term loan | (139,000,000) | (139,000,000) |
| Revenue bonds payable | (11,575,000) | (11,790,000) |
| Unamortized bond premiums | (1,128,276) | (1,197,806) |
| Unamortized bond issuance cost | 604,161 | 641,392 |
| Land contract - GVEA | (1,284,074) | (1,463,866) |
| Mt. McKinley commercial loan | (1,857,459) | (1,938,886) |
| Equipment notes payable | (23,972) | (164,115) |
| Construction payables | (444,414) | (32,549) |
| Total net investment in capital investment | 18,132,010 | 16,670,527 |
| Unrestricted | 20,145,079 | 8,115,181 |
| Net Position | \$ 38,277,089 | 24,785,708 |

X. NATURAL GAS PURCHASE AND TRANSPORTATION CONTRACTS

In January 2021 IGU entered into a "Gas Sale and Purchase Agreement" with Hilcorp Alaska, LLC to purchase natural gas. The agreement was effective January 1, 2021, with a delivery commencement date of April 1, 2021. The agreement expires March 31, 2026. Though, 180 days prior to the expiration date, IGU has the option to extend the term by up to two additional 3-year terms. The contract was amended effective January 18, 2023, First Amendment. The amendment eliminates future extension options and volume purchase and sale volume commitments of the parties provided the Harvest LNG Agreement is in force. The date for this amendment to be in full effect is the commencement date, October 1, 2024 "Targeted Commencement Date", of the LNG Manufacturing Service Agreement between IGU and Harvest Alaska LNG, LLC (Harvest) dated January 18, 2023. In the case the target commencement date is not achievable by Harvest, Harvest has an additional 180 days from the original targeted commencement date and the commencement date will be adjusted accordingly.

In January 2023 IGU entered into a "Gas Sale and Purchase Agreement" with Hilcorp North Slope, LLC to purchase natural gas. The agreement was effective January 1, 2023, with a delivery commencement date based on the LNG Manufacturing Service Agreement (Agreement) between IGU and Harvest Alaska LNG, LLC (Harvest). The Agreement has a targeted commencement date of October 1, 2024 with an 180 day extension if the targeted commencement date has not been achieved. The term of the Agreement ends June 30, 2045, subject to renewal provision.

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

In January 2023 IGU entered into a "LNG Manufacturing Service Agreement" with Harvest Alaska LNG, LLC to purchase liquefied natural gas (LNG). The agreement was effective January 18, 2023, with a targeted delivery commencement date of October 1, 2024 with a 180 day extension if the targeted commencement date can not be achieved. The agreement primary term expires June 30, 2045. The agreement shall be renewed automatically for additional three (3) contract year periods thereafter on an evergreen basis unless terminated by either party. IGU may however give notice no later than three years prior to the expiration of the primary term that IGU will renew the agreement for additional five (5) year contract year periods beyond the primary term. The latter renewal term can be done twice.

On February 1, 2021 IGU entered into a "Firm Transportation Service Agreement" with Enstar Natural Gas Company for transportation of natural gas from the Cook Inlet area to Point Mackenzie. The agreement will expire on February 1, 2026 then remains in effect on a year to year basis or terminates upon twelve months written notice by either party.

In April 2023 IGU entered into an "LNG Transportation Agreement" with Helzer Logistics, Inc. (Helzer) for transportation of LNG. The agreement has an initial term of July 1, 2023 until June 30, 2025 and will automatically renew for additional one year periods from July to June unless terminated by either party.

In March 2024, IGU terminated its "LNG Transportation Agreement" with Helzer for the transportation of LNG. As of June 30, 2024, IGU did not have a contractual "LNG Transportation Agreement" due to on-going negotiations with Middle Fork Logistics.

XI. RETIREMENT PLAN

IGU maintained two 401(k) defined contribution retirement plans. During the year ended June 30, 2021, the 401(k) plans became inactive and were frozen as IGU was not eligible to maintain a 401(k) plan. IGU entered into the Voluntary Correction Program (Form 14568) offered by the Department of Treasury - Internal Revenue Service (IRS) to correct compliance issues. On March 11, 2021, IGU received correspondence from the IRS accepting IGU's proposed corrections. The conditions of the corrections to remain compliant are as follows: (1) IGU will cease all contributions as of December 28, 2020; (2) no new employee or employer contributions will be permitted; and (3) the assets in the plan will remain in the custodial account and be distributed no earlier than the occurrence of one of the permitted events under IRC Section 401(k).

During 2021, IGU adopted a 457(b) deferred compensation retirement plan for all eligible employees with an effective date of January 1, 2021. The plan allows participants to defer a portion of their annual compensation.

During 2021, IGU adopted a 401(a) defined contribution retirement plan for all eligible employees with an effective date of January 1, 2021. IGU provides matching contributions of up to 4 percent of contributions made by eligible employees participating in the 457(b) plan into the 401(a) plan, and a non-elective discretionary matching percentage by the employer from time to time during the plan year.

For the years ended June 30, 2024 and 2023 IGU's matching contributions to all plans totaled \$77,198 and \$80,429, respectively.

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

XII. LABOR CONTRACTS

The International Brotherhood of Electrical Workers (IBEW) Local 1547 represents all full-time Fairbanks distribution and LNG storage operators employed by IGU. The collective-bargaining contract was ratified by its members and executed by management with an effective date of July 23, 2023. Under the terms of the collective-bargaining agreement, IGU contributes \$1.55 per hour for each regular employee covered by the agreement to the AETF Money Purchase Pension Plan. The contract will expire on December 31, 2025. For the years ended June 30, 2024 and 2023, annual contributions of \$31,296 and \$12,377, respectively, were made to the plan.

XIII. CONCENTRATIONS AND CREDIT RISK

Substantially all of IGU's revenues are generated through the distribution of natural gas in Fairbanks and North Pole, Alaska. Accordingly, the company is affected by the economic conditions in the local economies.

Custodial Credit Risk Related to Deposits - For deposits, Custodial Credit Risk is the risk that, in the event of the failure of the banking institution, IGU will not be able to recover the value of its deposits that are in the possession of an outside party. IGU maintains its cash balances at three financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. IGU entered into Securities Custodial Agreements with Mt. McKinley Bank and Wells Fargo Bank to collateralize up to \$1,000,000 and \$14,516,083, respectively, of cash balances in excess of the FDIC limits. IGU has not experienced any loss in such accounts. Of bank balances totaling \$18,427,136, the uninsured and uncollateralized balance was \$3,320,680 at June 30, 2024. Of bank balances totaling \$8,131,126, the uninsured and uncollateralized balance was \$1,577,931 at June 30, 2023. IGU believes it is not exposed to any significant credit risk on cash and cash equivalents.

XIV. SUBSEQUENT PRONOUNCEMENTS

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates covering several topics as follows:

- GASB 101 *Compensated Absences*. Effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.
- GASB 102 *Certain Risk Disclosures*. Effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.
- GASB 103 *Financial Reporting Model Improvements*: Effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

GASB Statement No. 101 unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences.

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

GASB Statement No. 102 will improve financial reporting by providing users of financial statements with essential information that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to a government's financial condition.

GASB Statement No. 103 will improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

XV. SUBSEQUENT EVENTS

On July 24, 2024, IGU executed a new "LNG Transportation Agreement" with Middle Fork Logistics. This agreement will remain in effect through July 25, 2029; it is a five-year term unless either party gives proper notice of termination.

COMPLIANCE SECTION

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

Independent Auditor's Report

Members of the Board
Interior Alaska Natural Gas Utility
Fairbanks, Alaska

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 accompanying financial statements of the Interior Alaska Natural Gas Utility (IGU), a discretely presented component unit of the Fairbanks North Star Borough, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise Interior Alaska Natural Gas Utility's basic financial statements, and have issued our report thereon dated October 18, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Interior Alaska Natural Gas Utility'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 Interior Alaska Natural Gas Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Interior Alaska Natural Gas Utility'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 entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Interior Alaska Natural Gas Utility'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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Altman, Rogers & Co.".

Anchorage, Alaska
October 18, 2024

INTERIOR ALASKA NATURAL GAS UTILITY

Schedule of Findings

June 30, 2024

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements were prepared in accordance with GAAP:

Unmodified

Is a going concern emphasis-of-matter paragraph included in the audit report

Yes No

Internal control over financial reporting:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified?

Yes None noted

Noncompliance material to financial statements noted?

Yes No

Section II – Financial Statement Findings

Interior Alaska Natural Gas Utility did not have any findings related to the financial statements.