

INTERIOR ALASKA NATURAL GAS UTILITY

Comparative Financial Statements, Required Supplementary
Information, Supplemental Information
and Compliance Reports
(With Independent Auditor's Reports Thereon)

Years Ended June 30, 2025 and 2024

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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, 2025 and 2024, 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, 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 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

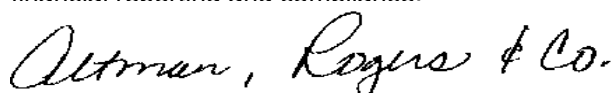
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-12 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Supplemental Information listed in the table of contents includes the Schedule of Expenditures of Federal Awards and the accompanying notes to the Schedule, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and are not a required part of the 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 audit 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 GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2025, 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
November 25, 2025

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis

Year Ended June 30, 2025

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, 2024 to June 30, 2025. 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, 2025 by \$38 million. June 30, 2025 unrestricted net position was \$15 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, 2025 and June 30, 2024:

	June 30, 2025	June 30, 2024	Increase (Decrease)
Current assets	\$ 20,406,053	25,748,134	(5,342,081)
Property, plant and equipment, net of depreciation	168,416,265	163,740,786	4,675,479
Total assets	<u>188,822,318</u>	<u>189,488,920</u>	<u>(666,602)</u>
Deferred outflows of resources	5,736,284	6,198,634	(462,350)
Total assets and deferred outflows of resources	<u>\$ 194,558,602</u>	<u>195,687,554</u>	<u>(1,128,952)</u>
Current liabilities	\$ 3,088,566	3,667,826	(579,260)
Noncurrent liabilities	153,425,721	153,742,639	(316,918)
Total liabilities	<u>156,514,287</u>	<u>157,410,465</u>	<u>(896,178)</u>
Total net position	<u>38,044,315</u>	<u>38,277,089</u>	<u>(232,774)</u>
Total liabilities and net position	<u>\$ 194,558,602</u>	<u>195,687,554</u>	<u>(1,128,952)</u>

Current assets were \$5.3 million lower at June 20, 2025 compared to June 30, 2024 as outlined below:

	June 30, 2025	June 30, 2024	Increase (Decrease)
Cash	\$ 2,474,830	2,078,123	396,707
Cash – restricted construction funds	1,001,054	998,998	2,056
Investments – Marketable Securities	9,690,193	15,312,882	(5,622,689)
Accounts receivable, net of allowance for doubtful account (\$75,000, 2025 and 2024)	1,078,377	1,338,894	(260,517)
Liquefied natural gas inventory	3,605,768	3,219,720	386,048
Material and supplies inventory	1,625,635	1,902,627	(276,992)
Deposits and other current assets	930,196	896,890	33,306
Total current assets	<u>\$ 20,406,053</u>	<u>25,748,134</u>	<u>(5,342,081)</u>

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

- **Cash** balances were \$400 thousand higher on June 30, 2025 compared to June 30, 2024 largely as a result of using less operating cash for an early construction season and less operating expenses throughout the year.
- **Restricted cash** increased by \$2 thousand with no direct causation; these funds are used to make debt service payments and are replenished monthly to ensure payments are made on time.
- **Investments** - Marketable Securities decreased \$5.6 million due to utilizing these investments to purchased new cryogenic trailers used to haul LNG.
- **Accounts receivable** decreased \$261 thousand due to less gas sales.
- **Liquefied Natural Gas (LNG) inventory** increased \$386 thousand. The increase is due to purchasing more 3rd party LNG that is more expensive as well as an increase in the level of inventory on hand.
- **Materials and supplies inventory** decreased by \$277 thousand due to timing differences of when materials needed to be replenished.
- **Deposits and other current assets** increased \$33 thousand primarily due to increased prepaid insurance costs.

Property, plant & equipment balances were \$4.7 million higher on June 30, 2025 compared to June 30, 2024. The following schedule outlines the current year activity:

	<u>June 30,</u> <u>2025</u>	<u>June 30,</u> <u>2024</u>	<u>Increase</u> <u>(Decrease)</u>
Gas plant in service, at cost	\$ 187,367,470	179,693,305	7,674,165
Less: accumulated provision for depreciation and amortization	<u>29,698,176</u>	<u>24,130,297</u>	<u>5,567,879</u>
Net property, plant and equipment in service	157,669,294	155,563,008	2,106,286
Gas plant held for future use, at cost	258,846	258,846	-
Construction work in progress	<u>10,488,125</u>	<u>7,918,932</u>	<u>2,569,193</u>
Total property, plant and equipment	<u>\$ 168,416,265</u>	<u>163,740,786</u>	<u>4,675,479</u>

- **Gas plant in service, at cost** increased \$7.6 million. \$3.7 million of the increase is due to mains and services being put into service, \$2.8 million is due to the purchase of new cryogenic trailers, and \$1.4 million is a combination of various other capital projects completed throughout the year.
- **Gas plant held for future use, at cost** remained unchanged for the year.
- **Construction work in progress** increased \$2.5 million due to the spring weather allowing construction activities to begin early; this was the case in the previous year as well as other grant projects that are multi-year projects.

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.

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

Current liabilities were \$579 thousand lower on June 30, 2025, compared to June 30, 2024, as outlined below:

	June 30, 2025	June 30, 2024	Increase (Decrease)
Current maturities of long-term debt	\$ 285,158	521,982	(236,824)
Accrued wages and burden	256,040	207,233	48,807
Accounts payable	2,442,046	2,447,520	(5,474)
Construction payables	-	444,414	(444,414)
Other current and accrued liabilities	105,322	46,677	58,645
Total current liabilities	<u>\$ 3,088,566</u>	<u>3,667,826</u>	<u>(579,260)</u>

- **Current portion of long term debt** decreased \$237 thousand. The decrease is related to one equipment loan that matured in fiscal year 2025.
- **Accrued wages and burden** increased \$49 thousand. The increase is due to IGU creating new positions during the year and additional days being accrued than the previous year.
- **Accounts payable** decreased by \$5 thousand. The decrease is due to less payments due, compared to the previous year. Construction payables are no longer segregated out of Accounts Payable. See note below.
- **Construction payable** decreased \$444 thousand. This line item is no longer used to segregate out construction payables from Accounts Payable.
- **Other current and accrued liabilities** increased \$59 thousand. The increase is related to accruing more expenses than the previous year.

Noncurrent liabilities were \$317 thousand lower on June 30, 2025, compared to June 30, 2024, as outlined below:

	June 30, 2025	June 30, 2024	Increase (Decrease)
Long-term debt, less current maturities:			
Revenue bonds payable (Series 2020A), net			
unamortized bond premium & issuance costs	\$ 11,842,348	11,874,115	(31,767)
AIDEA term loan	139,000,000	139,000,000	-
Land contract – GVEA	897,072	1,095,293	(198,221)
Mt. McKinley Bank commercial loan	1,686,301	1,773,231	(86,930)
Equipment loans payable	-	-	-
Total noncurrent liabilities	<u>\$ 153,425,721</u>	<u>153,742,639</u>	<u>(316,918)</u>

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

- **Revenue bonds payable (Series 2020A)** decreased \$32 thousand due to a principal payment of \$225 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 \$198 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 \$87 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** remained unchanged from year to year.

Net position decreased \$145 thousand during the period ended June 30, 2025, as outlined below:

Beginning net position (July 1, 2024)	\$ 38,277,089
Reductions -	
Net change resulting from operating and non-operating activities	<u>(232,774)</u>
Ending net position (June 30, 2025)	<u>\$ 38,044,315</u>

Net position at June 30, 2025 was categorized as follows:

Net investment in capital assets	\$ 23,068,359
Unrestricted	<u>14,975,956</u>
Net position	<u>\$ 38,044,315</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, 2024, to June 30, 2025, with prior year comparison, June 30, 2024:

	<u>June 30,</u> <u>2025</u>	<u>June 30,</u> <u>2024</u>	<u>Increase</u> <u>(Decrease)</u>
Operating revenues:			
Residential sales	\$ 5,646,576	4,591,487	1,055,089
Commercial sales	21,333,241	18,410,444	2,922,797
Interruptible sales	2,180,535	5,991,939	(3,811,404)
Other operating revenues	982,906	903,964	78,942
Total operating revenues	<u>30,143,258</u>	<u>29,897,834</u>	<u>245,424</u>
Operating expenses:			
Natural gas purchases	10,686,818	11,982,343	(1,295,526)
Trucking	4,507,310	3,542,946	964,364
Electricity	1,705,716	1,697,209	8,507
Gas liquefaction expenses	2,893,961	2,948,238	(54,277)
Distribution operations	471,300	525,349	(54,049)
Distribution maintenance	107,615	156,759	(49,144)
Storage and vaporization operations	1,913,586	1,574,429	339,157
Storage and vaporization maintenance	147,764	197,734	(49,970)
Engineering	451,349	166,461	284,888
Talkeetna maintenance	3,768	10,241	(6,473)
Customer services	254,065	448,249	(194,184)
Administrative and general expenses	3,437,036	3,182,683	254,353
Taxes	288,407	292,493	(4,086)
Interest expense	628,157	655,655	(27,498)
Depreciation	5,580,146	5,187,027	393,120
Amortization	462,351	462,351	-
Total operating expenses	<u>33,539,349</u>	<u>33,030,167</u>	<u>509,182</u>
Operating loss	(3,396,091)	(3,132,333)	(263,758)
Non-operating revenues (expenses):			
Gain from disposition of property, plant and equipment	2,100	2,650	(550)
Interest and dividend income	430,373	390,496	39,877
Grant income - federal	2,193,470	699,646	1,493,824
Grant income - state	560,382	-	560,383
State of Alaska - LNG tax credit	-	15,000,000	(15,000,000)
Other income	(23,008)	530,922	(553,930)
Total non-operating revenues (expenses)	<u>3,163,317</u>	<u>16,623,714</u>	<u>(13,460,397)</u>
Change in net position	(232,774)	13,491,381	(13,724,155)
Net position – beginning of period	<u>38,277,089</u>	<u>24,785,708</u>	<u>13,491,381</u>
Net position – end of period	\$ <u>38,044,315</u>	<u>38,277,089</u>	<u>(232,774)</u>

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

Operating revenues for the period July 1, 2024 to June 30, 2025.

- **Residential sales** include tariff rate approved sales for customers classified as residential. Residential sales increased \$1.1 million from previous year due to addition of new customers and a rate increase of \$0.196 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 \$2.9 million from the previous year largely due to addition of new customers and a rate increase of \$0.196 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 decreased \$3.8 million due to customers choosing to consume other alternative fuels (i.e. heating oil) instead of gas for cost reasons.
- **Other operating revenue** includes service charges on a fixed monthly charge that vary depending upon the customer classification, application fees for service or transfer of service, penalty charges for late payments and other direct utility services. Other operating revenues increased \$79 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, 2024 to June 30, 2025.

- **Natural gas purchases** represent the cost of gas consumed by all customers. Natural gas purchases decreased \$1.3 million from the previous year due to decreased sales from interruptible customers and the purchase of less 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 \$964 thousand due to increased trucking costs.
- **Electricity** represent the cost of electricity used in the liquefaction of natural gas process. Electricity increased \$9 thousand from previous year. No significant event caused the increase.
- **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 decreased \$54 thousand for the year largely due to decreased costs related to maintenance and less 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 decreased \$54 thousand for the year largely due to labor costs being utilized in other areas.
- **Distribution maintenance** includes costs related to maintenance operations of the distribution system located in Fairbanks and North Pole, AK. Distribution maintenance decreased by \$49 thousand for the year, largely due to labor and maintenance being utilized in other areas.

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 \$339 thousand for the year. The increase is related to additional positions created, more compliance work at the storage sites, additional labor due to more work being focused here than in other areas of operations, and additional 3rd party contractors being utilized.
- **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 \$49 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 \$285 thousand from the previous year due to additional contract work in this category.
- **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 \$6 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 decreased \$194 thousand for the year due to labor from this department being transferred to Administration, less bad debt write offs, and less credit card payment fees.
- **Administrative and general expenses** include costs related to administrative overhead, labor for management and 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 \$254 thousand for the year, due to the following reasons. An increase in labor costs occurred, resulting from reallocating personnel from customer service and establishing a new administrative position. The utility's insurance premiums for plant, property, and equipment increased. The utility also changed its health insurance allocation this year in an effort to retain more staff. Other areas driving elevated costs are employees taking more paid time off and more than expected computer maintenance from the previous year.
- **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 \$393 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 as well as putting 15 new cryogenic trailers into service.

INTERIOR ALASKA NATURAL GAS UTILITY

Management's Discussion and Analysis, Continued

Fixed charges for the period July 1, 2024 to June 30, 2025.

- Interest expense is the cost of financing current equipment and expansion projects. Interest expense decreased by \$27 thousand and is due to a loan maturing in the previous year. The utility did see some savings through indirect cost allocations from grant reimbursements. 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 \$550 due to less assets being disposed of than in the previous year.
- Grant income - federal increased by \$1.5 million due to more construction on the Targeted Airshed Grant (TAG) compared to the previous year.
- Grant income - state increased by \$560 thousand due to receiving state grants funds. The utility did not receive any state grant funds in the previous year.
- Interest and dividend income increased by \$40 thousand due to more interest being earned on cash investments than the previous year.
- State of Alaska - LNG tax credit decreased by \$15 million due to the utility only being eligible to receive a one-time \$15 million tax credit from the State of Alaska for the construction of a new LNG tank.
- Other income (expenses) decreased by \$554 thousand due to the utility not recording any settlements from Notice of Probable Violations (NOPV) through the Department of Transportation Pipeline Hazardous Materials and Safety Administration (PHMSA). In the previous year, the utility reduced two contingent liabilities and recorded those reductions as Extraordinary income. Further driving the decrease is the utility did not receive any insurance payouts for damage to assets this year, compared to the previous year.

BASIC FINANCIAL STATEMENTS

INTERIOR ALASKA NATURAL GAS UTILITY
COMPARATIVE STATEMENTS OF NET POSITION

June 30, 2025 and 2024

<u>Assets and Deferred Outflows of Resources</u>	2025	2024
Property, plant and equipment:		
Property, plant and equipment in service, at cost	\$ 187,367,470	179,693,305
Less: accumulated provision for depreciation	29,698,176	24,130,297
Net property, plant and equipment in service	157,669,294	155,563,008
Gas plant held for future use, at cost	258,846	258,846
Construction work in progress	10,488,125	7,918,932
Net property, plant and equipment	168,416,265	163,740,786
Current assets:		
Cash	2,474,830	2,078,123
Cash - <i>restricted construction funds</i>	1,001,054	998,998
Investments - marketable securities	9,690,193	15,312,882
Accounts receivable, net	1,078,377	1,338,894
Liquefied natural gas inventory	3,605,768	3,219,720
Materials and supplies inventory	1,625,635	1,902,627
Deposits and other current assets	930,196	896,890
Total current assets	20,406,053	25,748,134
Deferred outflows of resources:		
Gas plant acquisition adjustment	5,736,284	6,198,634
Total assets and deferred outflows of resources	\$ 194,558,602	195,687,554
<u>Liabilities and Net Positions</u>		
Current liabilities:		
Current maturities of long-term debt	\$ 520,158	521,982
Accrued wages and burden	256,040	207,233
Accounts payable	2,442,046	2,447,520
Construction payable	-	444,414
Other current and accrued liabilities	105,322	46,677
Total current liabilities	3,323,566	3,667,826
Noncurrent liabilities:		
Long-term debt, less current maturities:		
Revenue bonds payable (Series 2020A), net unamortized bond premium and issuance costs	11,607,348	11,874,115
AIDEA term loan	139,000,000	139,000,000
Land contract - GVEA	897,072	1,095,293
Mt. McKinley Bank commercial loan	1,686,301	1,773,231
Total noncurrent liabilities	153,190,721	153,742,639
Net position:		
Net investment in capital assets	23,068,359	18,132,010
Unrestricted	14,975,956	20,145,079
Total net position	38,044,315	38,277,089
Total liabilities and net position	\$ 194,558,602	195,687,554

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, 2025 and 2024

	2025	2024
Operating revenues:		
Residential sales	\$ 5,646,576	4,591,487
Commercial sales	21,333,241	18,410,444
Interruptible sales	2,180,535	5,991,939
Other operating revenue	982,906	903,964
Total operating revenues	30,143,258	29,897,834
Operating expenses:		
Natural gas purchases	10,686,818	11,982,344
Trucking	4,507,310	3,542,946
Electricity	1,705,716	1,697,209
Gas liquefaction expenses	2,893,961	2,948,238
Distribution operations	471,300	525,349
Distribution maintenance	107,615	156,759
Storage and vaporization operations	1,913,586	1,574,429
Storage and vaporization maintenance	147,764	197,734
Engineering	451,349	166,461
Talkeetna maintenance	3,768	10,241
Customer services	254,065	448,249
Administrative and general expenses	3,437,036	3,182,683
Taxes	288,407	292,493
Interest expense	628,157	655,655
Depreciation	5,580,146	5,187,026
Amortization	462,351	462,351
Total operating expenses	33,539,349	33,030,167
Operating loss	(3,396,091)	(3,132,333)
Non-operating revenues (expenses):		
Gain from disposition of property, plant and equipment	2,100	2,650
Interest and dividend income	430,373	390,496
Grant income - federal	2,193,470	699,646
Grant income - state	560,382	-
State of Alaska - LNG tax credit	-	15,000,000
Other income (expenses)	(23,008)	530,922
Non-operating revenues (expenses) total	3,163,317	16,623,714
Change in net position	(232,774)	13,491,381
Net position - beginning of year	38,277,089	24,785,708
Net position - end of period	\$ 38,044,315	38,277,089

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, 2025 and 2024

	2025	2024
Cash flows from (for) operating activities:		
Cash received from customers	\$ 30,380,767	29,888,336
Cash received from LNG storage tax credit	-	15,000,000
Cash received from federal grants	2,193,470	699,646
Cash received from state grants	560,382	-
Cash paid to suppliers	(23,212,348)	(21,650,984)
Cash paid to employees	(3,696,731)	(3,795,289)
	6,225,540	20,141,709
Net cash from (for) operating activities		
Cash flows from (for) capital and related financing activities:		
Proceeds from issuance of long-term debt	-	-
Principal payments on long-term debt	(521,973)	(616,362)
Interest payments	(659,925)	(687,954)
Proceeds from disposal of property, plant and equipment	2,100	2,650
Construction work in progress	(6,663,043)	(322,390)
Property, plant and equipment additions	(4,036,998)	(8,385,476)
	(11,879,839)	(10,009,532)
Net cash (for) by capital and related financing activities		
Cash flows from (for) investing activities:		
Purchase of investments	5,622,689	(15,312,882)
Interest and dividends received	430,373	390,497
	6,053,062	(14,922,385)
Net cash from (for) investing activities		
Net change in cash and restricted cash	398,763	(4,790,208)
Cash and restricted cash - beginning of year	3,077,121	7,867,329
Cash and restricted cash - end of year	\$ 3,475,884	3,077,121
Included in cash and restricted cash:		
Cash	\$ 2,474,830	2,078,123
Cash - restricted construction funds	1,001,054	998,998
	\$ 3,475,884	3,077,121

(continued)

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

	<u>2025</u>	<u>2024</u>
Reconciliation of operating loss to net cash from (for) operating activities		
Operating loss	\$ (3,396,091)	(3,132,333)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization	6,042,497	5,649,378
Interest expense	628,157	655,655
Other income (expenses)	(23,008)	530,922
Grant income - federal	2,193,470	699,646
Grant income - state	560,382	-
State of Alaska - LNG tax credit	-	15,000,000
(Increase) decrease in assets		
Accounts receivable, net	260,517	(234,785)
Liquefied natural gas inventory	(386,048)	464,795
Materials and supplies inventory	276,992	20,157
Deposits and other current assets	(33,306)	(98,765)
Increase (decrease) in liabilities		
Accrued wages and burden	48,807	20,865
Accounts payable	(5,474)	1,002,538
Other current and accrued liabilities	58,645	(436,364)
Total adjustments	<u>9,621,631</u>	<u>23,274,042</u>
Net cash provided by (used in) operating activities	<u>\$ 6,225,540</u>	<u>20,141,709</u>

Noncash Investing and Financing Activities

During the year ended June 30, 2025 IGU reclassified meters, distribution pipe, and pipe fittings installed from materials and supplies inventory to the proper asset account in the amount of \$952,774.

For the years ended June 30, 2025 and 2024, Construction payables included in costs capitalized to construction work in process totaling \$0 and \$444,414, respectively.

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

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

June 30, 2025 and 2024

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>.

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.

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, 2025, 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.

Compensated Absences -Effective June 30, 2024, IGU implemented GASB Statement No. 101, Compensated Absences. This Statement modifies the recognition and measurement of the compensated absences liability. Under GASB Statement No. 101, all earned, accumulated leave that is more likely than not to be paid or settled, is included in the measurement of compensated absences. IGU recognize that portion of leave in the compensated absences balance as of June 30, 2024. The adaption of this new pronouncement had no effect on IGU's balances as of June 30, 2024.

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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, 2025:

	Balance at July 1, 2024	Additions	Deletions	Balance at June 30, 2025
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	7,918,932	6,663,043	(4,093,850)	10,488,125
Total nondepreciable components	11,804,471	6,663,043	(4,093,850)	14,373,664
Depreciable components of property, plant and equipment:				
Distribution, storage and vaporization LNG production equipment	154,844,015	4,234,971	-	159,078,986
General plant:				
Structures and improvements	5,633,867	-	-	5,633,867
Transportation power-operated equipment	7,239,433	3,050,208	(12,267)	10,277,374
Furniture and office equipment	239,710	256,543	-	496,253
Total depreciable components of property, plant and equipment	176,066,612	7,686,432	(12,267)	183,740,777
Less accumulated provision for depreciation:				
Distribution, storage and vaporization LNG production equipment	(19,213,126)	(4,330,472)	-	(23,543,598)
General plant:				
Structures and improvements	(919,540)	(249,665)	-	(1,169,205)
Transportation and power-operated	(514,597)	(354,084)	12,267	(856,414)
Furniture and office equipment	(207,657)	(40,447)	-	(248,104)
Total accumulated provision for depreciation	(24,130,297)	(5,580,146)	12,267	(29,698,176)
Total depreciable components of property, plant and equipment	151,936,315	2,106,286	-	154,042,601
Net property, plant and equipment	\$ 163,740,786	8,769,329	(4,093,850)	168,416,265

Depreciation expense totaled \$5,580,146 and \$5,155,027 for property, plant and equipment for the fiscal years ended June 30, 2025 and 2024, respectively.

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

IV. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources at June 30, 2025, and 2024 consisted of a \$1,304,195 and \$1,425,616 gas plant acquisition adjustment, which resulted from the purchase of Pentex by AIDEA, and a \$4,432,088 and \$4,773,018 gas plant acquisition adjustment, respectively, resulting from the purchase of Pentex by IGU. The acquisition adjustments will be recognized as amortization expense as follows:

Year ending June 30:	Amount
2026	\$ 462,351
2027	462,351
2028	462,351
2029-2033	2,311,754
2034-2038	1,642,134
2039-2043	364,783
2044-2048	11,927
2049-2053	11,927
2054-2056	6,706
	<u>\$ 5,736,284</u>

Amortization expense for the year ended June 30, 2025 was \$462,351.

V. ACCOUNTS RECEIVABLE

The accounts receivable balances as of June 30, 2025 and 2024, were as follows:

	2025	2024
Trade	\$ 1,153,377	1,413,894
Less: allowance for doubtful accounts	75,000	75,000
	<u>\$ 1,078,377</u>	<u>1,338,894</u>

At June 30, 2025, all natural gas sales were billed.

VI. INVENTORIES

Inventories consisted of the following on June 30, 2025 and 2024:

	2025	2024
Liquefied natural gas	\$ 3,605,738	3,219,720
Materials and supplies	1,625,635	1,902,627
Total inventories	<u>\$ 5,231,373</u>	<u>5,122,347</u>

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

VII. LONG-TERM DEBT

Long-term debt consisted of the following:

	Balance at July 1, 2024	Additions	Deletions	Balance at June 30, 2025	Amounts due within one year
\$11,790,000 Revenue bonds					
Series 2020A 5.0 to 5.25 percent	\$ 11,575,000	-	(225,000)	11,350,000	235,000
AIDEA 0.25 percent term loan payable	139,000,000	-	-	139,000,000	-
Golden Valley Electric Association 5.0 percent promissory note	1,284,075	-	(188,782)	1,095,293	198,220
Mt. McKinley Bank 3.17 percent note payable	1,857,459	-	(84,220)	1,773,239	86,938
Wells Fargo Equipment Finance, Inc. 4.48 percent note payable	23,972	-	(23,972)	-	-
	\$ 153,740,506	-	(521,974)	153,218,532	520,158
Unamortized Bond issuance costs	(604,161)			(567,542)	
Unamortized Bond premium	1,128,276			1,059,889	
	\$ 154,264,621			\$ 153,710,879	

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.

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

June 30:	Principal	Interest	Total
2026	\$ 520,158	684,056	1,204,214
2027	547,865	659,598	1,207,463
2028	571,158	633,805	1,204,963
2029	504,465	606,899	1,111,364
2030	530,938	578,601	1,109,539
2031-2068	150,543,948	13,428,128	163,971,891
	<u>\$ 153,218,532</u>	<u>16,591,087</u>	<u>169,809,434</u>

VIII. NET POSITION

Net position consisted of the following at June 30:

	2025	2024
Net investment in capital assets:		
Total capital assets	\$ 168,416,265	163,740,786
Gas plant acquisition adjustment	5,736,284	6,198,634
Materials and supply inventory	1,625,635	1,902,627
Restricted cash (AIDEA & bond proceeds remaining)	1,001,054	998,997
AIDEA term loan	(139,000,000)	(139,000,000)
Revenue bonds payable	(11,285,934)	(11,575,000)
Unamortized bond premiums	(1,197,806)	(1,128,276)
Unamortized bond issuance cost	641,392	604,161
Land contract - GVEA	(1,095,293)	(1,284,074)
Mt. Mckinley commercial loan	(1,773,238)	(1,857,459)
Equipment notes payable	-	(23,972)
Construction payables	-	(444,414)
Total net investment in capital investment	<u>23,068,359</u>	<u>18,132,010</u>
Unrestricted	<u>14,975,656</u>	<u>20,145,079</u>
Net Position	<u>\$ 38,044,315</u>	<u>38,277,089</u>

IX. 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.

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 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.

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.

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.

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

In July 2024, IGU entered into an "LNG Transportation Agreement" with Middle Fork Logistics to transport LNG. The agreement has an initial term of 7/25/2024 until 7/25/2029 and will automatically renew for additional one year periods from July to June unless terminated by either party.

In June 2025, IGU executed a new "Trailer Maintenance Agreement" with Middle Fork Logistics. This one-year agreement will remain in effect through June 30, 2026, and will auto-renew unless either party gives proper notice of termination.

X. 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, 2025 and 2024 IGU's matching contributions to all plans totaled \$85,334 and \$77,198, respectively.

XI. 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, 2025 and 2024, annual contributions of \$34,141 and \$31,296, respectively, were made to the plan.

XII. 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 \$13,403,265, respectively, of cash balances in excess of the FDIC limits. IGU has not experienced any loss in such accounts. Of bank balances totaling \$13,168,240, there were no funds that were uninsured or uncollateralized at June 30, 2025. Of bank balances totaling \$18,427,136, the uninsured and uncollateralized balance was \$3,320,680 at June 30, 2024. IGU believes it is not exposed to any significant credit risk on cash and cash equivalents.

XIII. SUBSEQUENT PRONOUNCEMENTS

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

- GASB 103 *Financial Reporting Model Improvements*: Effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.
- GASB 104 *Disclosure of Certain Capital Assets*: Effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

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. The changes primarily include updates to three key areas: management's discussion and analysis, presentation of proprietary fund financial statements, and budgetary comparison information. This Statement also addresses certain application issues.

GASB Statement No. 104 establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note disclosures. The Statement also establishes requirements for capital assets held for sale and requires additional disclosures for those capital assets. Under the guidance, a capital asset is a capital asset held for sale if: (a) the government has decided to pursue the sale of the asset, and (b) it is probable the sale will be finalized within a year of the financial statement date. A government should disclose the historical cost and accumulated depreciation of capital assets held for sale, by major class of asset.

XIV. SUBSEQUENT EVENTS

The company has evaluated subsequent events through November 25, 2025 the date on which the financial statement was available to be issued.

SUPPLEMENTAL INFORMATION

INTERIOR GAS UTILITY
(A Component Unit of Fairbanks North Star Borough)

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2025

<u>Grant Title</u>	<u>Grant Number</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Total Grant Award</u>	<u>Federal Share of Expenditures</u>
U.S. Environmental Protection Agency:				
Passed through the State of Alaska,				
Department of Commerce, Community, and				
Economic Development				
Alaska Targeted Air Shed Grant (TAS)	24-TAS-02	66.956	\$ <u>4,000,000</u>	<u>2,107,897</u>
U.S. Department of Defense:				
Passed through the University of Alaska Fairbanks				
Eielson Infrastructure Readiness FY25 Grant	HQ00020200006	12.618	<u>225,000</u>	<u>12,204</u>
Total U.S. Department of Defense			<u>225,000</u>	<u>12,204</u>
U.S. Department of Transportation:				
Direct - Natural Gas Distribution Infrastructure &				
Safety Modernization	693JK32540054NGDI	20.708	<u>88,279</u>	<u>73,369</u>
Total Expenditures of Federal Awards			<u>\$ 4,313,279</u>	<u>2,193,470</u>

See accompanying notes to the Schedule

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2025

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Interior Alaska Natural Gas Utility under programs of the federal government for the year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Interior Alaska Natural Gas Utility, it is not intended to and does not present the basic financial statements of Interior Alaska Natural Gas Utility.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Interior Alaska Natural Gas Utility has elected not to use the 15% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3. Passed Through Awards

No amounts were passed through to subrecipients.

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, 2025, 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 November 25, 2025.

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.

Members of the Board
Interior Alaska Natural Gas Utility

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.



Anchorage, Alaska
November 25, 2025

Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the *Uniform Guidance*

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Interior Alaska Natural Gas Utility's compliance with the types of compliance requirements identified as subject to audit in *OMB Compliance Supplement* that could have a direct and material effect on each of Interior Alaska Natural Gas Utility's major federal programs for the year ended June 30, 2025. Interior Alaska Natural Gas Utility's major federal programs are identified in the summary of auditor's results section of the accompanying Federal Schedule of Findings and Questioned costs.

In our opinion, Interior Alaska Natural Gas Utility complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Interior Alaska Natural Gas Utility and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Interior Alaska Natural Gas Utility's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Interior Alaska Natural Gas Utility's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Interior Alaska Natural Gas Utility's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Interior Alaska Natural Gas Utility's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Interior Alaska Natural Gas Utility's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Interior Alaska Natural Gas Utility's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Interior Alaska Natural Gas Utility's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Altman, Rogers & Co.

Anchorage, Alaska
November 25, 2025

INTERIOR ALASKA NATURAL GAS UTILITY

Federal Schedule of Findings and Questioned Costs

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

Federal Awards

Internal control over major federal programs (2 CFR 200.516(a)(1)):
Material weakness identified? Yes No
Significant deficiency identified? Yes None reported

Any material noncompliance with provisions of laws, regulations, contracts, or grant agreements related to a major program (2 CFR 200.516(a)(2))? Yes No

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, 2 CFR 200.516(a)(3) or (4)? Yes No

Identification of major programs:

Assistance Listing Number(s)
66.956

Name of Federal Program or Cluster
Targeted Airshed Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

INTERIOR ALASKA NATURAL GAS UTILITY

Federal Schedule of Findings and Questioned Costs, Continued

Section II – Financial Statement Findings

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

Section III – Federal Award Findings

Interior Alaska Natural Gas Utility did not have any findings that relate to the federal awards.