



**Cook & Haugeberg** LLC  
CERTIFIED PUBLIC ACCOUNTANTS

INTERIOR ALASKA NATURAL GAS UTILITY

CONSOLIDATING FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

and

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

INTERIOR ALASKA NATURAL GAS UTILITY  
CONSOLIDATING FINANCIAL STATEMENTS  
Years Ended June 30, 2020 and 2019

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INTERIOR ALASKA NATURAL GAS UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2020

**Overview of the Financial Statements**

The financial statements of Interior Alaska Natural Gas Utility (IGU) report financial activity for one subsidiary company, Pentex Alaska Natural Gas Company, LLC (Pentex). The financial statements of Pentex report financial activity for four subsidiary companies; Fairbanks Natural Gas, LLC (FNG), Titan Alaska LNG, LLC (Titan), Arctic Energy Transportation, LLC (AET) and Polar LNG, LLC (Polar). Pentex's sole member is the IGU, a discretely presented component unit of the Fairbanks North Star Borough (Borough).

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position presented in this management's discussion and analysis are on a comparative basis. The consolidated comparative prior period covered is July 1, 2018 through June 30, 2019. The consolidating financial statements for the fiscal year ended June 30, 2020 represent the second complete year of ownership of Pentex for IGU.

The financial statements contain three sections: management's discussion and analysis, consolidating financial statements and notes to consolidating financial statements. IGU operations are business type activities and follow enterprise fund accounting. IGU is a discretely presented component unit of the 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 <http://www.fnsb.us/fs/Pages/Comprehensive-Annual-Financial-Reports.aspx>.

**Consolidating Financial Statements**

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

**Statements of Revenues, Expenses and Changes in Net Position** reports income, expenses, and resulting changes 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.

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

**Notes to Consolidating Financial Statements** provide more information to better understand the amounts reported in the consolidating 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, 2019 to June 30, 2020. 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 Certified Public Accountants, the audited consolidating financial statements and the accompanying notes.

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2020

**Financial Highlights**

IGU's assets and deferred outflows of resources exceeded its liabilities at June 30, 2020 by \$37.3 million. June 30, 2020 unrestricted net position was \$1.6 million and restricted net position was \$4.0 million. The unrestricted net position was available for future financial needs and the restricted net position was available for future construction activities related to the Interior Energy Project (IEP) capital projects.

**Financial Analysis**

Following are IGU's total assets and deferred outflows of resources, liabilities and net position at June 30, 2020 and June 30, 2019:

	June 30, 2020	June 30, 2019	Increase (Decrease)
Current assets	\$ 11,964,559	\$ 8,194,811	\$ 3,769,748
Property, plant and equipment	149,970,599	131,002,881	18,967,718
Total assets	161,935,158	139,197,692	22,737,466
Deferred outflows of resources	8,048,037	8,510,388	(462,351)
Total assets and deferred outflows of resources	<u>\$ 169,983,195</u>	<u>\$ 147,708,080</u>	<u>\$ 22,275,115</u>
Current liabilities	\$ 4,666,590	\$ 2,798,190	\$ 1,868,400
Noncurrent liabilities	128,161,633	105,215,358	22,946,275
Total liabilities	132,828,223	108,013,548	24,814,675
Net investment in capital assets	31,664,959	33,210,828	(1,545,869)
Restricted	4,001,717		4,001,717
Unrestricted	1,488,296	6,483,704	(4,995,408)
Total net position	<u>37,154,972</u>	<u>39,694,532</u>	<u>(2,539,560)</u>
Total liabilities and net position	<u>\$ 169,983,195</u>	<u>\$ 147,708,080</u>	<u>\$ 22,275,115</u>

**Current assets** were \$3.9 million higher at June 30, 2020 compared to June 30, 2019 as outlined below:

	June 30, 2020	June 30, 2019	Increase (Decrease)
Cash	\$ 3,647,647	\$ 5,953,432	\$ (2,305,785)
Cash - restricted construction funds	4,001,717		4,001,717
Investments	541,341	487,906	53,435
Accounts receivable, net allowance for doubtful accounts (\$75,000, 2020 and 2019)	582,097	507,254	74,843
Liquefied natural gas inventory	1,777,800	399,664	1,378,136
Materials and supplies inventory	831,824	500,461	331,363
Deposits and other current assets	582,133	346,094	236,039
Total current assets	<u>\$ 11,964,559</u>	<u>\$ 8,194,811</u>	<u>\$ 3,769,748</u>

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2020

- **Cash** balances were \$2.3 million lower at June 30, 2020 compared to June 30, 2019 largely as a result of the purchase of \$1.5 million in additional LNG inventory and \$784 thousand of construction expenditure loan reimbursements lagging. The remaining \$118 thousand is from various other uses of cash in the normal course of business. The following schedule details the lagging loan proceeds.

	IGU Consolidated Totals
Beginning construction payable at July 1, 2019	\$ 1,909,397
Total FY20 construction expenditures	19,117,124
Total FY20 inventory purchases for future construction	420,903
Less: pipe, meter and parts inventory included in accounts payable	(158,834)
Less: Ending construction payable	<u>(3,236,373)</u>
Total cash disbursed/used (IEP projects only)	18,052,217
Total loan proceeds received, net of restricted loan as of June 30, 2020	<u>17,268,193</u>
Expenditures not yet funded by loan proceeds	<u>\$ 784,024</u>

- **Restricted cash** increased \$4.0 million due to advance loan proceeds from AIDEA in FY20 for future IEP projects. The funds are restricted to IEP projects and are not available for normal operations of the Utility.
- **Investments** increased \$53 thousand due to the current year contribution to the deferred compensation account of \$50 thousand and \$3 thousand of interest earnings of the deferred compensation account.
- **Accounts receivable, net** increased \$75 thousand due to slower collections as a result of the COVID-19 pandemic. The Utility continues to work with those customers that have called in to request help with their bills. The accounts receivable balance represents the trade accounts for the customers of FNG.
- **Liquefied natural gas (LNG) inventory** increased \$1.4 million. The increase is due to additions of inventory to the new 5.25 million gallon storage facility.
- **Materials and supplies inventory** increased \$331 thousand in preparation of the summer construction season. IGU expects in excess of 150 new service lines will be installed over the course of the summer construction season.
- **Deposits and other current assets** increased \$236 thousand primarily due to increased prepaid insurance costs. The liability insurance policies were reviewed and adjusted during the renewal period to adequately provide the required coverages.

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2020

**Property, plant and equipment** balances were \$19.0 million higher at June 30, 2020 compared to June 30, 2019 as outlined below:

	June 30, 2020	June 30, 2019	Increase (Decrease)
Property, plant and equipment in service, at cost	\$ 103,084,400	\$ 42,529,594	\$ 60,554,806
Less: accumulated provision for depreciation and amortization	<u>5,078,826</u>	<u>2,327,727</u>	<u>2,751,099</u>
Net property, plant and equipment in service	98,005,574	40,201,867	57,803,707
Gas plant held for future use, at cost	39,234,592	39,234,592	
Construction work in progress	<u>12,730,433</u>	<u>51,566,422</u>	<u>(38,835,989)</u>
Total net property, plant and equipment	<u>\$ 149,970,599</u>	<u>\$ 131,002,881</u>	<u>\$ 18,967,718</u>

- **Property, plant and equipment in service, at cost** increased \$60.6 million. \$58.0 million of the increase is due to the 5.25 million gallon storage facility being placed into service and transferred out of construction work in progress. \$2.2 million of the increase was the result of purchasing land in North Pole for the new storage facility being constructed. The remaining increase of \$400 thousand is a combination of distribution and service line installation and various other small capital projects completed throughout the year.
- **Gas plant held for future use, at cost** had no change in the current year. IGU anticipates that these assets will be placed in service mid-year of FY21 as new services are added to both the Fairbanks and North Pole distribution systems during the summer construction season.
- **Construction work in progress (CWIP)** decreased \$38.8 million due to the transfer of \$58.0 million for the 5.25 million gallon storage facility placed in service and additions to construction work in progress from continued construction activities on the North Pole storage facility located in North Pole, AK and the Point Mackenzie liquefaction facility located in the vicinity of Big Lake, AK.

**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 \$1.9 million higher at June 30, 2020 compared to June 30, 2019 as outlined below:

	June 30, 2020	June 30, 2019	Increase (Decrease)
Current maturities of long-term debt	\$ 328,836	\$ 166,053	\$ 162,783
Accrued wages and burden	251,067	212,838	38,229
Accounts payable	767,882	491,926	275,956
Construction payable	3,236,373	1,909,397	1,326,976
Other current and accrued liabilities	<u>82,432</u>	<u>17,976</u>	<u>64,456</u>
Total current liabilities	<u>\$ 4,666,590</u>	<u>\$ 2,798,190</u>	<u>\$ 1,868,400</u>

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2020

- **Current maturities of long-term debt** increased \$163 thousand. \$151 thousand of the increase is related to the North Pole land acquisition. The land was purchased on a land contract with Golden Valley Electric Association. The additional \$12 thousand is related to two equipment loans that are approaching maturity. As the equipment loans approach maturity, the principal on the loan increases and the interest expense charge decreases.
- **Accrued wages and burden** increased \$38 thousand. No significant activity caused this variance.
- **Accounts payable** increased \$275 thousand. The increase is largely due to the increased purchases of distribution and services materials for the summer construction season.
- **Construction payable** increased \$1.3 million. The payable is related to the construction activities of the previously listed projects in the construction work in progress note.
- **Other current and accrued liabilities** increased \$64 thousand. No significant activity caused this variance.

**Noncurrent liabilities** were \$22.9 million higher at June 30, 2020 compared to June 30, 2019 as outlined below:

	June 30, 2020	June 30, 2019	Increase (Decrease)
Accumulated deferred compensation	\$ 541,341	\$ 487,906	\$ 53,435
Long-term debt, less current maturities			
AIDEA term loan	125,287,471	104,019,278	21,268,193
Land contract - GVEA	1,798,126		1,798,126
Equipment loans payable	534,695	708,174	(173,479)
Total noncurrent liabilities	<u>\$ 128,161,633</u>	<u>\$ 105,215,358</u>	<u>\$ 22,946,275</u>

- **Accumulated deferred compensation** increased \$53 thousand due to the current year contribution to the deferred compensation account of \$50 thousand and \$3 thousand of realized gains of the deferred compensation account.
- **AIDEA term loan** increased \$21.3 million. The loan proceeds were used in the continued construction activities related to the 5.25 million gallon storage facility, the North Pole storage facility, and the Point Mackenzie liquefaction facility.
- **Land contract - GVEA** increased \$1.8 million due to the North Pole land acquisition. The land was purchased on a land contract with Golden Valley Electric Association.
- **Equipment loans payable** decreased \$173 thousand due to the scheduled payments on the loans. The equipment loans are related to liquefied natural gas (LNG) transport trailers operated by Titan.

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2020

**Total net position** decreased \$2.5 million during the period ended June 30, 2020 as outlined below:

Beginning net position at July 1, 2019	\$ 39,694,532
Net change resulting from operating and nonoperating activities	<u>(2,539,560)</u>
Ending net position as of June 30, 2020	<u>\$ 37,154,972</u>

**Net position** at June 30, 2020 was categorized as follows:

Net investment in capital assets	\$ 31,664,959
Restricted	4,001,717
Unrestricted	<u>1,488,296</u>
Ending net position as of June 30, 2020	<u>\$ 37,154,972</u>

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2020

Following are IGU's operating revenues and expenses, net nonoperating revenues (expenses) and change in net position for the period July 1, 2019 to June 30, 2020 compared to the period July 1, 2018 to June 30, 2019:

	June 30, 2020	June 30, 2019	Increase (Decrease)
<b>Operating revenues</b>			
Residential sales	\$ 1,265,357	\$ 1,088,126	\$ 177,231
Commercial sales	12,692,794	11,320,947	1,371,847
Interruptible sales	2,968,805	2,976,866	(8,061)
FNSB contract revenue		304,575	(304,575)
Other operating revenues	338,946	331,673	7,273
Total operating revenues	<u>17,265,902</u>	<u>16,022,187</u>	<u>1,243,715</u>
<b>Operating expenses</b>			
Natural gas purchases	7,374,936	6,607,374	767,562
Trucking	1,960,199	1,989,446	(29,247)
Electricity	1,009,804	911,275	98,529
Gas liquefaction expenses	1,875,091	1,507,200	367,891
Fairbanks distribution operations	357,120	339,679	17,441
Fairbanks distribution maintenance	79,051	100,312	(21,261)
Fairbanks storage and vaporization operations	452,148	276,375	175,773
Fairbanks storage and vaporization maintenance	54,741	53,414	1,327
Engineering	192,815	199,775	(6,960)
AET operations and maintenance	22,754	23,666	(912)
Talkeetna maintenance	13,359	6,734	6,625
Customer service	310,909	221,313	89,596
Administrative and general expenses	2,916,721	2,543,997	372,724
Interest expense	35,169	42,277	(7,108)
Depreciation	2,751,099	2,210,142	540,957
Amortization	462,351	462,351	
Total operating expenses	<u>19,868,267</u>	<u>17,495,330</u>	<u>2,372,937</u>
<b>Operating loss</b>	<u>(2,602,365)</u>	<u>(1,473,143)</u>	<u>(1,129,222)</u>
<b>Nonoperating revenues (expenses)</b>			
Gain from disposition of property, plant and equipment	100	3,842	(3,742)
Loss from disposition of materials and supplies inventory		(15,911)	15,911
Interest and dividend income	6,341	7,853	(1,512)
Other income	56,364	25,943	30,421
Transfers in (out), net		541,889	(541,889)
Net increase (decrease) in fair value of investments		24,299	(24,299)
<b>Nonoperating revenues (expenses) total</b>	<u>62,805</u>	<u>587,915</u>	<u>(525,110)</u>
<b>Change in net position</b>	<u>(2,539,560)</u>	<u>(885,228)</u>	<u>(1,654,332)</u>
Net position - beginning of period	<u>39,694,532</u>	<u>40,579,760</u>	<u>(885,228)</u>
<b>Net position - end of period</b>	<u>\$ 37,154,972</u>	<u>\$ 39,694,532</u>	<u>\$ (2,539,560)</u>

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2020

**Operating revenues** for the period July 1, 2019 to June 30, 2020 are described as follows:

- **Residential sales** include tariff rate approved sales for customers classified as residential. Residential sales increased \$177 thousand largely due to a colder heating season than in prior year.
- **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 service area located in Fairbanks, Alaska (AK). Commercial sales increased \$1.4 million largely due to a colder heating season than in prior year.
- **Interruptible sales** include tariff rate approved sales for customers classified as small commercial interruptible and tariff approved sales agreements for large commercial interruptible customers. Interruptible sales decreased \$8 thousand due to a combination of customers switching to alternative fuels (i.e. heating oil or coal) for cost reasons.
- **FNSB contract revenue** includes services contract revenue received by IGU during the fiscal year. The decrease of \$305 thousand is due to the contract expiration during FY19.
- **Other operating revenues** includes a customer 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 \$7 thousand largely due to increased gas application fees for new customers to be installed during the summer construction season in FY21.

**Operating expenses** for the period July 1, 2019 to June 30, 2020 are described as follows:

- **Natural gas purchases** represent the cost of gas consumed by all customers serviced by IGU's owned companies. Natural gas purchases increased \$768 thousand largely due to a colder heating season than in prior year, which required more gas and resulted in increased sales.
- **Trucking** represents the cost of transporting LNG from the LNG plant to the LNG storage facilities. Trucking decreased \$29 thousand. Though gas sales were higher, the average cost of trucking was significantly less in FY20. The annual average cost per load of LNG hauled to Fairbanks storage facilities was \$1,776 during FY20, as compared to \$2,089 in FY19. One significant driver of the reduced cost is related to an escalation/de-escalation component of diesel fuel costs for vendors within the transportation contract. When diesel fuel prices are lower than a base fuel price, a de-escalation of price per load is calculated and alternatively, when diesel prices increase over the base price, the price per load increases. All diesel prices in FY20 were below the base price in the contract. Also during the year, the transportation contract was renewed through the request for proposal (RFP) process, resulting in a slight decrease in cost per load from the previous contract. In addition, the Utility increased use of its own LNG tractors during the year which contributed to additional savings.
- **Electricity** represents the cost of electricity used in the natural gas liquefaction process. Electricity increased \$99 thousand due to a colder heating season than in prior year.
- **Gas liquefaction expenses** represent the cost to operate and maintain the equipment to liquefy natural gas for transport to Fairbanks and other destinations in Alaska (AK). Gas liquefaction expenses increased \$368 thousand largely due to both planned and unexpected maintenance costs.

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2020

- **Distribution operations** includes costs related to general operations of the distribution system located in Fairbanks, AK. Distribution operations increased \$17 thousand for the year largely due to temporary laborers were hired to assist the distribution operators in daily tasks as the distribution operators focused more of their daily activities on the construction and commissioning of the 5.25 million gallon tank project. Other increased labor activities within the department and increased cost of labor also contributed to the overall increase.
- **Distribution maintenance** includes costs related to maintenance operations of the distribution system located in Fairbanks, AK. Distribution maintenance decreased \$21 thousand for the year largely due to decreased labor activities within the department.
- **Storage and vaporization operations** includes costs related to general operations of the storage and vaporization systems located in Fairbanks, AK and Talkeetna, AK and a storage system located in Houston, AK. The storage and vaporization operations increase of \$176 thousand is directly related to increased gas usage expense of \$25 thousand for vaporization of LNG for distribution, as well as increased labor expense of \$60 thousand and increased electricity expenses of \$92 thousand for operation of the newly commissioned 5.25 million gallon tank facility.
- **Storage and vaporization maintenance** includes costs related to general maintenance of the storage and vaporization systems located in Fairbanks, AK and Talkeetna, AK and a storage system located in Houston, AK.
- **Engineering** includes costs for in-house engineering related to capital projects and state/federal regulation compliance. Engineering decreased \$7 thousand largely due to capitalization of engineering wages to construction projects.
- **AET operations and maintenance** includes costs for day-to-day operations and maintenance of the two LNG dispensing stations.
- **Talkeetna maintenance** includes costs for day-to-day maintenance of the stand-alone storage and vaporization system located at the Talkeetna Lodge, vicinity of Talkeetna, AK. Maintenance costs increased \$7 thousand due to a repair to the LNG vaporizer.
- **Customer service** includes costs for servicing of customer accounts, meter reading and general customer support. Customer service increased \$90 thousand due to an increase of \$31 thousand in sales expense related to the development of a new website, \$11 thousand in credit card processing fees due to higher sales accounts being paid electronically, \$32 thousand in labor expense due to the Customer Service manager having a full year of labor expense, and \$13 thousand in bad debt expense. The bad debt increase is directly related to the COVID-19 pandemic as Ravn Air went into bankruptcy protection during the year and accounted for a significant amount of the bad debt. The remaining \$4 thousand was related to an increase in public awareness expenses.
- **Administrative and general expenses** includes 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 \$373 thousand largely due to increased insurance expense of \$175 thousand, labor expense of \$120 thousand that is related to the Director of Operations being with the company for a full year and annual wage increases, and various other common expenses.

INTERIOR ALASKA NATURAL GAS UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)  
For the year ended June 30, 2020

- **Depreciation and amortization** represent the allocation of the cost of property, plant and equipment assets over the useful lives of the assets and amortization of the gas plant acquisition adjustment. Depreciation increased \$541 thousand as a result of placing new assets into service.

**Fixed charges** for the period July 1, 2019 to June 30, 2020 consisted of:

- **Interest expense** is the cost of financing current equipment and expansion projects. See *Long-term Debt* notes to consolidated financial statements.

**Net nonoperating revenues (expenses)** are comprised of gains/(losses) from dispositions of property, plant and equipment and materials and supplies inventory, interest/dividend income from investments and transfers in.

### **Outlook**

The IGU companies have positive opportunities for the future. With the completed construction of the 5.25 million gallon fuel storage facility which was placed in service during the year, security of the gas supply has greatly increased and new customers are being added to the distribution system. The North Pole fuel storage facility began construction during the year and is anticipated to be completed in late fall 2021. The Board of Directors continues to evaluate gas supply options for the future expansion of services for new customers. The Utility continues to closely monitor the COVID-19 pandemic and prepares appropriately.



# Cook & Haugeberg LLC

## CERTIFIED PUBLIC ACCOUNTANTS

### Report of Independent Certified Public Accountants

Interior Alaska Natural Gas Utility and subsidiaries

#### **Report on the Financial Statements**

We have audited the accompanying consolidating statements of net position of Interior Alaska Natural Gas Utility and its subsidiaries (IGU), a discretely presented component unit of the Fairbanks North Star Borough, as of and for the year ended June 30, 2020, and the related consolidating statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidating financial statements, which collectively comprise IGU's consolidating financial statements.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidating financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidating financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidating financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

119 North Cushman Street, Suite 300 • Fairbanks, Alaska 99701 • 907-456-7762  
Fax 907-452-6184 • [www.ch-cpa.com](http://www.ch-cpa.com) • email: [Contact@ch-cpa.com](mailto:Contact@ch-cpa.com)

Partners: Gerald D. Haugeberg  
Senior Consultants:

Kara Moore  
James F. Dieringer, Jr.

Kathleen A.R. Thompson  
Michael T. Cook

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidating net position of Interior Alaska Natural Gas Utility and its subsidiaries as of June 30, 2020, and its revenues, expenses and changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii - xii be presented to supplement the consolidating financial statements. Such information, although not a part of the consolidating financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidating 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 consolidating financial statements, and other knowledge we obtained during our audit of the consolidating 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.

*Prior Year Comparative Information*

We have previously audited IGU's June 30, 2019 consolidating financial statements, and we expressed an unmodified opinion on the respective financial statements in our report dated September 27, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2020 on our consideration of IGU'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 IGU's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IGU's internal control over financial reporting and compliance.

Cook + Haugeberg LLC

August 18, 2020

## CONSOLIDATING FINANCIAL STATEMENTS

INTERIOR ALASKA NATURAL GAS UTILITY  
CONSOLIDATING STATEMENTS OF NET POSITION

June 30, 2020 and 2019

	2020		
	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC
<u>Assets and Deferred Outflows of Resources</u>			
Property, plant and equipment			
Property, plant and equipment in service, at cost	\$ 73,276,031	\$ 3,820,014	\$ 2,036,231
Less: accumulated provision for depreciation and amortization	2,262,742	693,543	273,191
Net property, plant and equipment in service	71,013,289	3,126,471	1,763,040
Gas plant held for future use, at cost	14,697,050		
Construction work in progress	226,288	820,680	
Net property, plant and equipment	85,936,627	3,947,151	1,763,040
Current assets			
Cash	1,870,314	1,168,620	11,583
Cash - restricted construction funds			
Investments	541,341		
Accounts receivable, net	565,417	16,680	
Accounts receivable - subsidiaries	191,105	1,853,270	4,489
Liquefied natural gas inventory	2,135,587	154,853	13,470
Materials and supplies inventory	702,431		
Deposits and other current assets	438,060	122,200	11,595
Total current assets	6,444,255	3,315,623	41,137
Deferred outflows of resources			
Gas plant acquisition adjustment			
Total assets and deferred outflows of resources	<u>\$ 92,380,882</u>	<u>\$ 7,262,774</u>	<u>\$ 1,804,177</u>
<u>Liabilities and Net Position</u>			
Current liabilities			
Current maturities of long-term debt	\$	\$ 173,479	\$
Accrued wages and burden	176,398	74,669	
Accounts payable	190,948	545,174	154
Accounts payable - subsidiaries	1,775,299	7,589	112,619
Construction payable	810,870		
Other current and accrued liabilities	74,685	7,747	
Total current liabilities	3,028,200	808,658	112,773
Noncurrent liabilities			
Accumulated deferred compensation	541,341		
Long-term debt, less current maturities			
AIDEA term loan	67,483,743	800,000	
Land contract - GVEA			
Equipment loans payable		534,695	
Total noncurrent liabilities	68,025,084	1,334,695	
Net position			
Net investment in capital assets	18,344,445	2,438,977	1,763,040
Restricted			
Unrestricted (deficit)	2,983,153	2,680,444	(71,636)
Total net position	21,327,598	5,119,421	1,691,404
Total liabilities and net position	<u>\$ 92,380,882</u>	<u>\$ 7,262,774</u>	<u>\$ 1,804,177</u>

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

2020			2019		
Acquisition Adjustment and Intercompany Eliminations	Pentex Alaska Natural Gas Company, LLC	Interior Alaska Natural Gas Utility	Pentex Acquisition Adjustment and Intercompany Eliminations	Interior Alaska Natural Gas Utility (Consolidated)	Interior Alaska Natural Gas Utility (Consolidated)
\$ 21,030,313	\$ 100,162,589	\$ 2,921,811	\$	\$ 103,084,400	\$ 42,529,594
1,830,426	5,059,902	18,924		5,078,826	2,327,727
19,199,887	95,102,687	2,902,887		98,005,574	40,201,867
2,278,816	16,975,866	22,258,726		39,234,592	39,234,592
	1,046,968	11,683,465		12,730,433	51,566,422
21,478,703	113,125,521	36,845,078		149,970,599	131,002,881
	3,050,517	597,130		3,647,647	5,953,432
		4,001,717		4,001,717	
	541,341			541,341	487,906
	582,097			582,097	507,254
(1,881,654)	167,210	13,852	(181,062)		
(526,110)	1,777,800			1,777,800	399,664
	702,431	129,393		831,824	500,461
	571,855	10,278		582,133	346,094
(2,407,764)	7,393,251	4,752,370	(181,062)	11,964,559	8,194,811
1,911,299	1,911,299	6,136,738		8,048,037	8,510,388
\$ 20,982,238	\$ 122,430,071	\$ 47,734,186	\$ (181,062)	\$ 169,983,195	\$ 147,708,080
\$	\$ 173,479	\$ 155,357	\$	\$ 328,836	\$ 166,053
	251,067			251,067	212,838
	736,276	31,606		767,882	491,926
(1,881,654)	13,853	167,209	(181,062)		
	810,870	2,425,503		3,236,373	1,909,397
	82,432			82,432	17,976
(1,881,654)	2,067,977	2,779,675	(181,062)	4,666,590	2,798,190
	541,341			541,341	487,906
	68,283,743	57,003,728		125,287,471	104,019,278
		1,798,126		1,798,126	
	534,695			534,695	708,174
	69,359,779	58,801,854		128,161,633	105,215,358
23,390,002	45,936,464	(14,271,505)		31,664,959	33,210,828
(526,110)	5,065,851	4,001,717		4,001,717	
		(3,577,555)		1,488,296	6,483,704
22,863,892	51,002,315	(13,847,343)		37,154,972	39,694,532
\$ 20,982,238	\$ 122,430,071	\$ 47,734,186	\$ (181,062)	\$ 169,983,195	\$ 147,708,080

INTERIOR ALASKA NATURAL GAS UTILITY

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2020 and 2019

	2020			
	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC	Polar LNG, LLC
Operating revenues				
Residential sales	\$ 1,265,357	\$	\$	\$
Commercial sales	12,533,187	159,607		
Interruptible sales	2,968,805			
Commercial sales - subsidiaries		14,874,555	73,472	
FNSB contract revenue				
Other operating revenues	338,946			
Total operating revenues	17,106,295	15,034,162	73,472	
Operating expenses				
Natural gas purchases	12,864,139	8,392,976	52,272	
Trucking		2,303,661		
Electricity		1,187,140		
Gas liquefaction expenses		1,877,834		
Fairbanks distribution operations	358,778			
Fairbanks distribution maintenance	79,051			
Fairbanks storage and vaporization operations	519,482			
Fairbanks storage and vaporization maintenance	54,741			
Engineering	192,815			
AET operations and maintenance			22,754	
Talkeetna maintenance		13,359		
Customer service	279,482			
Administrative and general expenses	1,747,727	448,244	27,007	44
Taxes	116,759	54,016	183	
Interest expense		35,169		
Depreciation	1,399,494	321,603	133,114	
Amortization				
Total operating expenses	17,612,468	14,634,002	235,330	44
Operating income (loss)	(506,173)	400,160	(161,858)	(44)
Nonoperating revenues (expenses)				
Gain from disposition of property, plant and equipment	100			
Loss from disposition of materials and supplies inventory				
Interest and dividend income	3,435			
Other income	54,956	909		
Transfers in (out), net	(1,571,549)			(5,622)
Net increase in fair value of investments				
Nonoperating revenues (expenses) total	(1,513,058)	909	(161,858)	(5,622)
Changes in net position	(2,019,231)	401,069	(161,858)	(5,666)
Net position - beginning of period	23,346,829	4,718,352	1,853,262	5,666
Net position - end of period	\$ 21,327,598	\$ 5,119,421	\$ 1,691,404	\$

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

2020			2019		
Acquisition Adjustment and Intercompany Eliminations	Pentex Alaska Natural Gas Company, LLC	Interior Alaska Natural Gas Utility	Pentex Acquisition Adjustment and Intercompany Eliminations	Interior Alaska Natural Gas Utility (Consolidated)	Interior Alaska Natural Gas Utility (Consolidated)
\$	\$ 1,265,357	\$	\$	\$ 1,265,357	\$ 1,088,126
	12,692,794			12,692,794	11,320,947
	2,968,805			2,968,805	2,976,866
(14,948,027)					304,575
	338,946			338,946	331,673
(14,948,027)	17,265,902			17,265,902	16,022,187
(13,934,451)	7,374,936			7,374,936	6,607,374
(343,462)	1,960,199			1,960,199	1,989,446
(177,336)	1,009,804			1,009,804	911,275
(2,743)	1,875,091			1,875,091	1,507,200
(1,658)	357,120			357,120	339,679
	79,051			79,051	100,312
(67,334)	452,148			452,148	276,375
	54,741			54,741	53,414
	192,815			192,815	199,775
	22,754			22,754	23,666
	13,359			13,359	6,734
	279,482	31,427		310,909	221,313
	2,223,022	630,174	(113,106)	2,740,090	2,393,224
	170,958	5,673		176,631	150,773
	35,169			35,169	42,277
894,102	2,748,313	2,786		2,751,099	2,210,142
121,421	121,421	340,930		462,351	462,351
(13,511,461)	18,970,383	1,010,990	(113,106)	19,868,267	17,495,330
(1,436,566)	(1,704,481)	(1,010,990)	113,106	(2,602,365)	(1,473,143)
	100			100	3,842
					(15,911)
	3,435	2,906		6,341	7,853
	55,865	499		56,364	25,943
	(1,577,171)	1,690,277	(113,106)		541,889
					24,299
	(1,517,771)	1,693,682	(113,106)	62,805	587,915
(1,436,566)	(3,222,252)	682,692		(2,539,560)	(885,228)
24,300,458	54,224,567	(14,530,035)		39,694,532	40,579,760
\$ 22,863,892	\$ 51,002,315	\$ (13,847,343)	\$	\$ 37,154,972	\$ 39,694,532

INTERIOR ALASKA NATURAL GAS UTILITY  
CONSOLIDATING STATEMENTS OF CASH FLOWS

Years Ended June 30, 2020 and 2019

	2020			
	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC	Polar LNG, LLC
Increase (Decrease) in Cash and Restricted Cash				
Cash flows from operating activities				
Cash flows from operating activities				
Cash received from customers	\$ 16,771,413	\$ 171,853	\$	\$
Cash received from subsidiaries	312,720	13,538,272	76,450	
Cash received from FNSB				
Cash paid to suppliers	(1,758,073)	(12,980,094)	(11,050)	(44)
Cash paid to subsidiaries	(15,200,472)	(333,311)	(59,463)	(5,622)
Cash paid related to employees	(1,781,900)	(782,872)	(3,595)	
Net cash provided by (used in) operating activities	<u>(1,656,312)</u>	<u>(386,152)</u>	<u>2,342</u>	<u>(5,666)</u>
Cash flows from capital and related financing activities				
Proceeds from issuance of long-term debt	14,698,698	800,000		
Principal payments on long-term debt		(166,053)		
Interest payments		(35,169)		
Proceeds from disposal of property, plant and equipment	100			
Construction work in progress	(14,974,500)	(441,630)		
Property, plant and equipment additions	<u>(320,596)</u>	<u>(92,660)</u>		
Net cash provided by (used in) capital and related financing activities	<u>(596,298)</u>	<u>64,488</u>		
Cash flows from investing activities				
Interest and dividends received	3,435			
Purchase of investments	<u>(50,000)</u>			
Net cash provided by (used in) investing activities	<u>(46,565)</u>			
Net increase (decrease) in cash and restricted cash	(2,299,175)	(321,664)	2,342	(5,666)
Cash and restricted cash at beginning of year	<u>4,169,489</u>	<u>1,490,284</u>	<u>9,241</u>	<u>5,666</u>
Cash and restricted cash at end of year	<u>\$ 1,870,314</u>	<u>\$ 1,168,620</u>	<u>\$ 11,583</u>	<u>\$</u>

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

	2020			2019		
Acquisition Adjustment and Intercompany Eliminations	Pentex Alaska Natural Gas Company, LLC	Interior Alaska Natural Gas Utility	Acquisition Adjustment and Intercompany Eliminations	Interior Alaska Natural Gas Utility (Consolidated)	Interior Alaska Natural Gas Utility (Consolidated)	
\$ (13,927,442)	\$ 16,943,266	\$ 499 1,690,277	\$ (1,690,277)	\$ 16,943,765	\$ 15,621,631	
13,927,442	(14,749,261) (1,671,426) (2,568,367)	(515,940) (18,851)	1,690,277	(15,265,201) (2,568,367)	454,660 (12,302,603) (2,378,849)	
	(2,045,788)	1,155,985		(889,803)	1,394,839	
	15,498,698 (166,053) (35,169)	7,722,978		23,221,676 (166,053) (35,169)	26,845,878 (158,945) (42,277)	
	100 (15,416,130) (413,256)	(2,391,237) (2,170,537)		100 (17,807,367) (2,583,793)	3,842 (28,220,792) (409,898)	
	(531,810)	3,161,204		2,629,394	(1,982,192)	
	3,435 (50,000)	2,906		6,341 (50,000)	7,290 (50,000)	
	(46,565)	2,906		(43,659)	(42,710)	
	(2,624,163)	4,320,095		1,695,932	(630,063)	
	5,674,680	278,752		5,953,432	6,583,495	
<u>\$</u>	<u>\$ 3,050,517</u>	<u>\$ 4,598,847</u>	<u>\$</u>	<u>\$ 7,649,364</u>	<u>\$ 5,953,432</u>	

INTERIOR ALASKA NATURAL GAS UTILITY

CONSOLIDATING STATEMENTS OF CASH FLOWS

(Continued)

Years Ended June 30, 2020 and 2019

	2020			
	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC	Polar LNG, LLC
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (506,173)	\$ 400,160	\$ (161,858)	\$ (44)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	1,399,494	321,603	133,114	
Interest income				
Interest payments		35,169		
Other income	54,956	909		
Transfers in (out)	(1,571,549)			(5,622)
(Increase) decrease in assets				
Accounts receivable, net	(93,781)	18,938		
Accounts receivable - subsidiaries	(156,937)	(1,343,884)	2,978	
Contract receivables				
Liquefied natural gas inventory	(1,720,077)	(82,614)	3,512	
Materials and supplies inventory	(345,216)			
Deposits and other current assets	(281,916)	22,907	6,471	
Increase (decrease) in liabilities				
Accrued wages and burden	19,716	18,513		
Accounts payable	86,826	212,937	(104)	
Accounts payable - subsidiaries	1,351,625	2,154	18,229	
Construction payable		(680)		
Accumulated deferred compensation	50,000			
Other current and accrued liabilities	56,720	7,736		
Total adjustments	(1,150,139)	(786,312)	164,200	(5,622)
Net cash provided by (used in) operating activities	\$ (1,656,312)	\$ (386,152)	\$ 2,342	\$ (5,666)

Noncash Investing Activities

Fairbanks Natural Gas, LLC (FNG):

FNG had realized gains on available for sale securities purchased to offset accumulated deferred compensation liabilities in the amount of \$31,589 during the year ended June 30, 2019.

FNG reclassified meters installed from meter inventory and pipe fitting inventory to the proper asset account in the amount of \$21,330 during the year ended June 30, 2019.

For the years ended June 30, 2020 and 2019, Construction payable included costs capitalized to construction work in process totaling \$1,056,112 and \$1,035,496, respectively.

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

2020			2019		
Acquisition Adjustment and Intercompany Eliminations	Pentex Alaska Natural Gas Company, LLC	Interior Alaska Natural Gas Utility	Acquisition Adjustment and Intercompany Eliminations	Interior Alaska Natural Gas Utility (Consolidated)	Interior Alaska Natural Gas Utility (Consolidated)
\$ (1,436,566)	\$ (1,704,481)	\$ (1,010,990)	\$ 113,106	\$ (2,602,365)	\$ (1,473,143)
1,015,523	2,869,734	343,716		3,213,450	2,672,493
	35,169			35,169	563
	55,865	499		56,364	42,277
	(1,577,171)	1,690,277	(113,106)		25,943
	(74,843)			(74,843)	85,115
	(1,497,843)		1,507,878	10,035	150,085
421,043	(1,378,136)			(1,378,136)	38,221
	(345,216)			(345,216)	(84,069)
	(252,538)	16,499		(236,039)	(85,452)
	38,229			38,229	43,538
	299,659	(23,703)		275,956	(91,418)
	1,372,008	139,687	(1,507,878)	3,817	
	(680)			(680)	
	50,000			50,000	14,397
	64,456			64,456	56,289
1,436,566	(341,307)	2,166,975	(113,106)	1,712,562	2,867,982
\$	\$ (2,045,788)	\$ 1,155,985	\$	\$ (889,803)	\$ 1,394,839

Interior Alaska Natural Gas Utility (IGU):

During the years ended June 30, 2020 and 2019, IGU transferred \$13,852 and \$16,518, respectively, of pipe and pipe fittings from material and supplies inventory to FNG.

For the years ended June 30, 2020 and 2019, Construction payable included costs capitalized to construction work in process totaling \$2,383,768 and \$41,735, respectively.

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INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

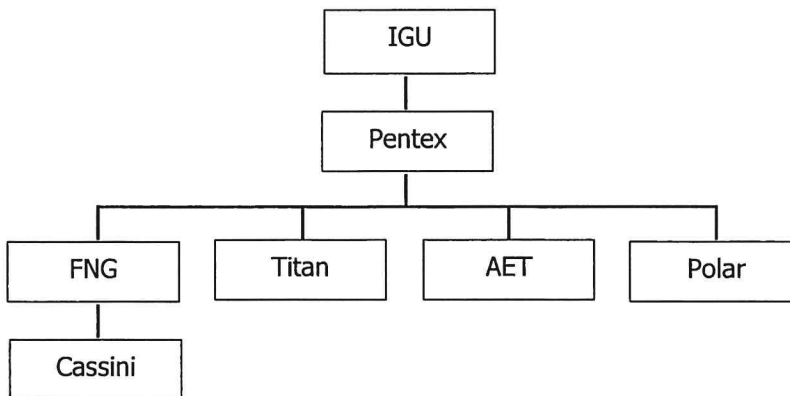
DESCRIPTION OF ORGANIZATION AND PRINCIPLES OF CONSOLIDATING

The Interior Alaska Natural Gas Utility, doing business as the Interior Gas Utility (IGU), was formed late 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 Pentex.

The consolidating financial statements of IGU, a discretely presented component unit of the Borough, include the accounts of Pentex Alaska Natural Gas Co., LLC (Pentex), a business holding entity that includes the accounts of Fairbanks Natural Gas, LLC (FNG), which operates a natural gas distribution utility for the residents and businesses of Fairbanks, Alaska; Titan Alaska LNG, LLC (Titan), which operates 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 are owned and managed by Pentex and IGU owns and manages Pentex. All material intercompany balances and transactions are eliminated in the consolidating financial statements, which are organized as follows:



## INTERIOR ALASKA NATURAL GAS UTILITY

### NOTES TO CONSOLIDATING FINANCIAL STATEMENTS (Continued)

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 <http://www.fnsb.us/fs/Pages/Comprehensive-Annual-Financial-Reports.aspx>.

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Accounting* - Enterprise Fund Accounting - In preparing the consolidating 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.

*Income Taxes* - Pentex was organized in the State of Delaware as a limited liability company electing to be treated as a partnership, whereby the taxable income or losses of the company was passed through to its members based on the members' agreement. The purchase of membership interest by AIDEA changed Pentex's filing status effective October 1, 2015 to a single member disregarded entity exempt from income taxes. With IGU ownership this exempt status is still in effect.

*Use of Estimates* - In preparing the consolidating 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.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS  
(Continued)

*Investments* - Investments are reported at fair value (generally based on quoted market prices). IGU has not 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).

*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 gas plant acquisition adjustments reported in the consolidating 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.

*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, 2020, 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.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS  
(Continued)

*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, 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.

*Reclassifications* - Certain reclassifications, which have no effect on changes in net position, have been made to prior year data to conform it to current classifications.

*Subsequent Events* - The company has evaluated subsequent events through August 18, 2020, the date on which the consolidating financial statements were available to be issued.

PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment activities were as follows for the fiscal year ended June 30, 2020:

	Balance at July 1, 2019	Additions	Deletions	Balance at June 30, 2020
Nondepreciable components of property, plant and equipment				
Land	\$ 373,700	\$ 2,170,537	\$	\$ 2,544,237
Intangible plant - CPCN	729,676			729,676
Gas plant held for future use, at cost	39,234,592			39,234,592
Construction work in progress	51,566,422	19,403,531	(58,239,520)	12,730,433
Total nondepreciable components of property, plant and equipment	91,904,390	21,574,068	(58,239,520)	55,238,938
Depreciable components of property, plant and equipment				
Distribution, storage and vaporization	28,252,469	58,291,041		86,543,510
LNG production equipment	7,957,515	78,174		8,035,689
General plant				
Structures and improvements	3,057,303			3,057,303
Transportation and power-operated equipment	2,084,825			2,084,825
Furniture and office equipment	74,106	15,054		89,160
Total depreciable components of property, plant and equipment	41,426,218	58,384,269		99,810,487
Less: accumulated provision for depreciation				
Distribution, storage and vaporization	(1,331,899)	(1,850,199)		(3,182,098)
LNG production equipment	(710,162)	(650,414)		(1,360,576)
General plant				
Structures and improvements	(140,077)	(133,114)		(273,191)
Transportation and power-operated equipment	(102,249)	(92,009)		(194,258)
Furniture and office equipment	(43,340)	(25,363)		(68,703)
Total accumulated provision for depreciation and amortization	(2,327,727)	(2,751,099)		(5,078,826)
Total depreciable components of property, plant and equipment, net	39,098,491	55,633,170		94,731,661
Net property, plant and equipment	<u>\$ 131,002,881</u>	<u>\$ 77,207,238</u>	<u>\$ (58,239,520)</u>	<u>\$ 149,970,599</u>

Depreciation expense totaled \$2,751,099 and \$2,210,142 for property, plant and equipment for the fiscal years ended June 30, 2020 and 2019, respectively.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

(Continued)

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources at June 30, 2020 and 2019 consisted of a \$2,032,720 gas plant acquisition adjustment which resulted from the purchase of Pentex by AIDEA and a \$6,477,668 gas plant acquisition adjustment resulting from the purchase of Pentex by IGU. The acquisition adjustments for IGU and Pentex will be recognized as amortization expense as follows:

Year ending June 30:	Pentex Alaska Natural Gas Co., LLC	Interior Alaska Natural Gas Utility	Interior Alaska Natural Gas Utility (Consolidated)
2021	\$ 121,421	\$ 340,930	\$ 462,351
2022	121,421	340,930	462,351
2023	121,421	340,930	462,351
2024 - 2028	607,103	1,704,650	2,311,753
2029 - 2033	607,103	1,704,650	2,311,753
2034 - 2038	281,396	1,704,648	1,986,044
2039 - 2043	14,909		14,909
2044 - 2048	14,909		14,909
2049 - 2053	14,909		14,909
2054 - 2056	6,707		6,707
	<u>\$ 1,911,299</u>	<u>\$ 6,136,738</u>	<u>\$ 8,048,037</u>

Amortization expense for the years ended June 30, 2020 and 2019 was \$462,351.

FAIR VALUE OF FINANCIAL INSTRUMENTS

FNG maintains money market funds at U.S. Bancorp (Level 1 inputs). As of June 30, 2020 and 2019, the investment account consisted of money market funds totaling \$541,341 and \$487,906, respectively.

ACCOUNTS RECEIVABLE

The accounts receivable balances as of June 30, 2020 and 2019, were as follows:

	2020		2019	
	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Interior Alaska Natural Gas Utility (Consolidated)	Interior Alaska Natural Gas Utility (Consolidated)
Trade	\$ 640,417	\$ 16,680	\$ 657,097	\$ 582,254
Less: allowance for doubtful accounts	<u>(75,000)</u>		<u>(75,000)</u>	<u>(75,000)</u>
	<u>\$ 565,417</u>	<u>\$ 16,680</u>	<u>\$ 582,097</u>	<u>\$ 507,254</u>

All natural gas sales were billed at June 30, 2020 and 2019.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS  
(Continued)

INVENTORIES

Inventories consisted of the following on June 30, 2020 and 2019:

	2020			2019
	Liquefied Natural Gas	Materials and Supplies Inventory	Total	Total
Fairbanks Natural Gas, LLC	\$ 2,135,587	\$ 702,431	\$ 2,838,018	\$ 772,725
Titan Alaska LNG, LLC	154,853		154,853	72,239
Arctic Energy Transportation, LLC	13,470		13,470	16,982
Eliminations	(526,110)		(526,110)	(105,067)
Pentex Alaska Natural Gas Company, LLC	1,777,800	702,431	2,480,231	756,879
Interior Alaska Natural Gas Utility		129,393	129,393	143,246
Interior Alaska Natural Gas Utility (Consolidated)	<u>\$ 1,777,800</u>	<u>\$ 831,824</u>	<u>\$ 2,609,624</u>	<u>\$ 900,125</u>

TRANSACTIONS AMONG SUBSIDIARIES

Fairbanks Natural Gas, LLC purchases liquefied natural gas from Titan Alaska LNG, LLC for regasification and distribution to FNG's customers. FNG also purchases boil off gas from Arctic Energy Transportation, LLC. AET purchases liquefied natural gas from Titan for resale to the transportation industry. Titan purchases liquefied natural gas from AET for use in its LNG tractors used to transport liquefied natural gas. FNG allocates labor costs to IGU based on time spent by FNG employees working on IGU specific tasks.

Labor allocations and gas purchases among subsidiaries for the years ended June 30, 2020 and 2019 were as follows:

	2020				
	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC	Interior Alaska Natural Gas Utility	Total
Labor allocated from FNG	\$	\$ 52,355	\$ 2,400	\$ 113,107	\$ 167,862
LNG purchased from Titan	14,816,164		58,392		14,874,556
Natural gas purchased from AET	24,203	49,270			73,473
	<u>\$ 14,840,367</u>	<u>\$ 101,625</u>	<u>\$ 60,792</u>	<u>\$ 113,107</u>	<u>\$ 15,115,891</u>
	2019				
	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC	Interior Alaska Natural Gas Utility	Total
Labor allocated from FNG	\$	\$	\$	\$ 129,666	\$ 129,666
LNG purchased from Titan	11,897,398		110,351		12,007,749
Natural gas purchased from AET	61,656	72,462			134,118
	<u>\$ 11,959,054</u>	<u>\$ 72,462</u>	<u>\$ 110,351</u>	<u>\$ 129,666</u>	<u>\$ 12,271,533</u>

Cash advances are made between the companies throughout the year during the normal course of business.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS  
(Continued)

Included in the statement of net position were the following related party balances at June 30, 2020:

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC	Interior Alaska Natural Gas Utility	Total
<u>Accounts receivable:</u>					
IGU	\$ 167,209	\$	\$	\$	\$ 167,209
FNG		1,760,731	716	13,852	1,775,299
Titan	3,816		3,773		7,589
AET	20,080	92,539			112,619
	<u>\$ 191,105</u>	<u>\$ 1,853,270</u>	<u>\$ 4,489</u>	<u>\$ 13,852</u>	<u>\$ 2,062,716</u>
<u>Accounts payable:</u>					
IGU	\$ 13,852	\$	\$	\$	\$ 13,852
FNG		3,816	20,080	167,209	191,105
Titan	1,760,731		92,539		1,853,270
AET	716	3,773			4,489
	<u>\$ 1,775,299</u>	<u>\$ 7,589</u>	<u>\$ 112,619</u>	<u>\$ 167,209</u>	<u>\$ 2,062,716</u>

Included in the statement of net position were the following related party balances at June 30, 2019:

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC	Interior Alaska Natural Gas Utility	Total
<u>Accounts receivable:</u>					
IGU	\$ 27,522	\$ 416,207	\$ 7,467	\$	\$ 451,196
Titan	5,435	93,179			98,614
AET	1,211				1,211
	<u>\$ 34,168</u>	<u>\$ 509,386</u>	<u>\$ 7,467</u>	<u>\$</u>	<u>\$ 551,021</u>
<u>Accounts payable:</u>					
FNG	\$	\$ 5,435	\$ 1,211	\$ 27,522	\$ 34,168
Titan	416,207		93,179		509,386
AET	7,467				7,467
	<u>\$ 423,674</u>	<u>\$ 5,435</u>	<u>\$ 94,390</u>	<u>\$ 27,522</u>	<u>\$ 551,021</u>

All related party balances and transactions are eliminated in the consolidated financial statements at June 30, 2020 and 2019.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS  
(Continued)

LONG-TERM DEBT - AIDEA TERM LOAN AND EQUIPMENT LOANS PAYABLE

Term and equipment loans payable consisted of the following at June 30, 2020:

	Balance at July 1, 2019	Additions	Principal payments	Balance at June 30, 2020	Amounts due within one year
AIDEA 0.25 percent term loan payable	\$ 104,019,278	\$ 21,268,193	\$	\$ 125,287,471	\$
Golden Valley Electric Association 5.00 percent promissory note		1,953,483		1,953,483	155,357
Wells Fargo Equipment Finance, Inc. 4.15 percent note payable	208,209		(48,863)	159,346	50,930
Wells Fargo Equipment Finance, Inc. 4.48 percent note payable	666,018		(117,190)	548,828	122,549
	<u>\$ 104,893,505</u>	<u>\$ 23,221,676</u>	<u>\$ (166,053)</u>	<u>\$ 127,949,128</u>	<u>\$ 328,836</u>

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.

The 5.00 percent promissory note to Golden Valley Electric Association is payable in annual installments of \$252,985 including interest and becomes due on September 25, 2029. The note is secured by two parcels of land located in North Pole, Alaska.

The 4.15 percent note payable by Titan to Wells Fargo Equipment Finance, Inc. is payable in monthly installments of \$4,715 including interest and becomes due on June 7, 2023. The note is secured by a 2015 Heil LNG transport trailer.

The 4.48 percent note payable by Titan 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.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS  
(Continued)

Minimum annual payments for long-term debt of IGU at June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Titan Alaska LNG, LLC:</u>			
2021	\$ 173,479	\$ 27,743	\$ 201,222
2022	181,237	19,984	201,221
2023	189,344	11,878	201,222
2024	140,142	4,498	144,640
2025	23,972	134	24,106
	<u>708,174</u>	<u>64,237</u>	<u>772,411</u>
<u>Interior Alaska Natural Gas Utility:</u>			
2021	\$ 155,357	\$ 97,674	\$ 253,031
2022	162,878	90,153	253,031
2023	171,269	81,762	253,031
2024	179,832	73,199	253,031
2025	188,824	64,208	253,032
2026-68	126,382,794	6,495,316	132,878,110
	<u>127,240,954</u>	<u>6,902,312</u>	<u>134,143,266</u>
	<u>\$ 127,949,128</u>	<u>\$ 6,966,549</u>	<u>\$ 134,915,677</u>

OPERATING LEASES

Operating lease terms are outlined as follows:

IGU leases an office facility in Fairbanks, Alaska, for a monthly rent of \$1,500. The lease expense for the fiscal years ended June 30, 2020 and 2019 was \$18,000 and \$23,260, respectively.

IGU leased land in North Pole, Alaska, for pipe inventory storage from Interior Investment Group. The lease, which required monthly payments of \$200, expired on March 10, 2017. IGU continued to lease the land on a month-to-month basis at the same monthly rate through October 2019. The lease expense for the fiscal years ended June 30, 2020 and 2019 was \$800 and \$2,400, respectively.

FNG leases office facilities in Fairbanks, Alaska under an operating lease. The lease became effective June 1, 2016 and expired on May 31, 2019. Monthly payments were \$10,253, which consisted of the base lease payment of \$9,216 and an additional lease payment of \$1,037. The additional lease payment is for property taxes and insurance and is subject to a "true-up" annually based on actual costs. FNG continued to lease the office facility on a month-to-month basis after the expiration at a monthly rate of \$12,557. In September 2019, the Board of Directors approved the execution of a lease extension for two additional years commencing on September 1, 2019 through August 31, 2021. Under the new lease agreement, monthly payments are \$12,075, which consists of the base lease payment of \$10,608 and an additional lease payment of \$1,467. Annual lease expense for the fiscal years ended June 30, 2020 and 2019 was \$149,753 and \$130,083, respectively.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS  
(Continued)

AET in 2012 exercised an option to lease 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 2017. Lease payments charged to income totaled \$6,659 and \$6,561 for the fiscal years ended June 30, 2020 and 2019, respectively.

The following is a schedule of future minimum lease payments for operating leases as of June 30, 2020:

	Fairbanks Natural Gas, LLC	Arctic Energy Transportation, LLC	Interior Alaska Natural Gas Company (Consolidated)
2021	\$ 144,900	\$ 6,759	\$ 151,659
2022	24,150	6,860	31,010
2023		6,963	6,963
2024		7,068	7,068
2025		7,174	7,174
	<u>\$ 169,050</u>	<u>\$ 34,824</u>	<u>\$ 203,874</u>

DEFERRED COMPENSATION LIABILITY

FNG maintains a deferred compensation plan for the president of the company (the executive). Under the plan, the executive is entitled to have a fixed annual benefit amount of \$50,000 credited to the deferred compensation account. Gains and losses on amounts voluntarily set aside by management to offset deferred compensation obligations are recorded as adjustments to the offsetting investment and the liability balance. Normal vesting occurs in the following manner: 1/26th of the annual award shall vest at the end of each subsequent bi-weekly pay period. The plan is unfunded; therefore, benefits are paid from the general assets of the company and are not accumulated via a trust or equivalent arrangement. The total benefit amount accrued at June 30, 2020 and 2019 was \$541,341 and \$487,906, respectively.

CONSOLIDATED NET POSITION

Consolidated net position of IGU consisted of the following at June 30, 2020:

	June 30, 2020
Net investment in capital assets	
Total capital assets	\$ 149,970,599
Gas plant acquisition adjustment	8,048,037
Materials and supplies inventory	831,824
AIDEA term loan (net of restricted funds unspent)	(121,287,471)
Construction payable	(3,236,373)
Other long-term debt (total long-term and current)	(2,661,657)
Total net investment in capital assets	31,664,959
Restricted	4,001,717
Unrestricted	1,488,296
Net position	\$ 37,154,972

INTERIOR ALASKA NATURAL GAS UTILITY  
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS  
(Continued)

NATURAL GAS PURCHASE AND TRANSPORTATION CONTRACTS

In January 2014 FNG entered into a "Firm LNG Sale and Purchase Agreement" with Titan. The agreement, which was effective January 1, 2014, expired March 31, 2018. There was no written notice of non-renewal by either party and the agreement was automatically renewed for an additional one year term, effective April 1, 2020.

In August 2017 Titan entered into a "Gas Sale and Purchase Agreement" with Hilcorp Alaska, LLC to purchase natural gas. The agreement, which was effective August 1, 2017, expires March 31, 2021.

In August 2013 Titan 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, which was effective beginning September 1, 2013, expired July 31, 2018 then remains in effect year to year or terminates upon twelve month written notice by either party.

In March 2015 Titan entered into an "LNG Transportation Agreement" with Sourdough Express, Incorporated for transportation of LNG. The agreement had an initial term of March 11, 2015 until June 30, 2016 and will automatically renew for additional one year periods until terminated by either party.

In March 2015 Titan entered into a "Trailer Interchange Agreement" with Weaver Bros., Inc. for transportation services. The agreement, which was effective March 11, 2015, will remain in effect until terminated by either party.

In November 2015 Titan entered into an "LNG Transportation Agreement" with Big State Logistics, Inc. for transportation of LNG. The agreement had an initial term of November 1, 2015 until June 30, 2016 and will automatically renew for additional one year periods from July to June until terminated by either party. Titan terminated the contract effective June 30, 2019. On June 27, 2019, Titan entered into a new "LNG Transportation Agreement" with Big State Logistics, Inc. that commences July 1, 2019 and expires June 30, 2022 and will automatically renew for additional one year periods from July to June unless terminated by either party.

RETIREMENT PLAN

FNG and Titan maintain separate 401(k) defined contribution retirement plans for all eligible employees of FNG and Titan. Under each plan, participants may defer a portion of their annual compensation. FNG and Titan provide matching contributions of up to 4 percent of eligible employee compensation. For the year ended June 30, 2020, FNG's matching contributions totaled \$34,355 and Titan's matching contributions totaled \$16,316. For the year ended June 30, 2019, FNG's matching contributions totaled \$27,069 and Titan's matching contributions totaled \$12,324.

LABOR CONTRACTS

The International Brotherhood of Electrical Workers (IBEW) Local 1547 represents all full-time natural gas operators employed by FNG. The collective-bargaining contract was ratified by its members and executed by management August 22, 2019. Under the terms of the collective-bargaining agreement, FNG contributes \$1.25 per hour for each regular employee covered by the agreement to the AETF Money Purchase Pension Plan. For the year ended June 30, 2020, annual contributions of \$11,100 were made to the plan.

## INTERIOR ALASKA NATURAL GAS UTILITY

### NOTES TO CONSOLIDATING FINANCIAL STATEMENTS (Continued)

#### CONCENTRATIONS AND CREDIT RISK

Titan distributes natural gas predominantly to FNG for sale to customers in Fairbanks, Alaska. Accordingly, the companies are affected by the economic conditions in the local economy.

*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 two financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. IGU entered into a Securities Custodial Agreement with Mt. McKinley Bank and Wells Fargo Bank to collateralize up to \$1,000,000 and \$4,000,000, respectively, of cash balances in excess of the FDIC limits. IGU has not experienced any loss in such accounts. Of bank balances totaling \$7,711,404, the uninsured and uncollateralized balance was \$2,457,131 at June 30, 2020. Of bank balances totaling \$6,162,451, the uninsured and uncollateralized balance was \$1,662,451 at June 30, 2019. IGU believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### RELATED PARTIES

Fairbanks Natural Gas, LLC (FNG), Titan Alaska LNG, LLC (Titan), Arctic Energy Transportation, LLC (AET), and Polar LNG, LLC (Polar) are wholly owned companies of Pentex Alaska Natural Gas Company, LLC (Pentex), which is wholly owned by IGU.

FNG is a certificated public utility holding Certificate of Public Convenience and Necessity (CPCN) numbers 514 and 777 issued by the Regulatory Commission of Alaska for the area located in Fairbanks, Alaska. The purpose of CPCN 514 is for the provision of natural gas through FNG's gas distribution system to the residents and businesses of Fairbanks. During fiscal year 2020, FNG was granted CPCN 777 for the sole purpose of providing LNG storage services in the Fairbanks area. In addition, FNG formed Cassini LNG Storage, LLC to develop a large LNG storage facility in Fairbanks, Alaska.

Titan is a producer of liquefied natural gas (LNG) primarily dedicated to supplying Fairbanks Natural Gas, LLC with LNG.

AET is an LNG fuel service company with locations in Fairbanks, Alaska and Houston, Alaska. Its purpose is to introduce LNG to the motor fuel market in the state of Alaska. AET continues to run a pilot program to determine the feasibility of marketing natural gas motor fuels.

Polar LNG, LLC was developing an LNG facility on the North Slope of Alaska. In mid 2014 Polar ceased development of the project and began the process of dissolving past development efforts. In 2015 all development efforts that were not liquidated through sale were written off. During fiscal year 2020, Polar transferred all of its remaining assets to FNG.

Cassini, a wholly owned subsidiary of FNG, was created for the purpose of designing, constructing and operating a large LNG storage tank to be located in Fairbanks, Alaska. Management made the decision to not commission Cassini to develop or construct the storage project. To date, Cassini has no assets or liabilities.

## INTERIOR ALASKA NATURAL GAS UTILITY

### NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

(Continued)

#### SUBSEQUENT EVENTS

FNG applied for a \$15 million Alaska Liquefied Natural Gas Storage Facility Tax Credit. The application was accepted by the State of Alaska Department of Revenue and awaits funding by the Alaska Legislature.

During the 2020 fiscal year, the IGU Board of Directors authorized management to progress the consolidation of all IGU owned companies into one unified Utility under control of IGU. The individual companies are expected to be dissolved during the next fiscal year and consolidated into IGU.

IGU has an estimated \$11 million (par amount) tax-exempt bond financing planned in the next fiscal year. The issuance is expected to yield a \$1.8 million premium at the date of sale. The total gross proceeds from the issuance is anticipated to be \$13 million. \$10 million of the proceeds are to be used for construction of distribution main extensions and customer service lines and meters. The remaining estimated proceeds of \$3 million will be used for the capitalized interest fund, debt service reserve fund and all bond issuance costs.

The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

#### RECENT PRONOUNCEMENTS

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance (GASB 95) was issued by the GASB in May of 2020. The objective of GASB 95 is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are rescheduled to become effective for periods beginning after June 15, 2018, and later. GASB 95 is effective immediately.

GASB Statement No. 92, Omnibus 2020 (GASB 92) was issued by the GASB in January of 2020. The objectives of GASB 92 are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements and addresses a variety of topics related to leases, intra-entity transfers of assets, application of GASB 73, 74, and 84, asset retirement obligations, public entity risk pools, nonrecurring fair value measurements and derivative instruments. GASB 92 is effective for the fiscal year ending June 30, 2021. The company has not implemented GASB 92 and is currently evaluating the impact on future financial statements.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of Construction (GASB 89) was issued by the GASB in June of 2018. The objectives of GASB 89 are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. GASB 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. GASB 89 is effective for the fiscal year ending June 30, 2022. The company has not implemented GASB 89 and is currently evaluating the impact on future financial statements.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS  
(Continued)

GASB Statement No. 87, Leases (GASB 87) was issued by the GASB in June 2017. The objective of GASB 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases, based on the principle that leases are financings of the right to use an underlying asset. GASB 87 requires lessees to recognize a lease liability and an intangible right-to-use asset, and requires a lessor to recognize a lease receivable and a deferred inflow of resources. GASB 87 is effective for the fiscal year ending June 30, 2022. The company has not implemented GASB 87 and is currently evaluating the impact on future financial statements.

**SUPPLEMENTAL REPORT REQUIRED BY  
*GOVERNMENT AUDITING STANDARDS***

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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

Interior Alaska Natural Gas Utility and subsidiaries

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 consolidating financial statements of Interior Alaska Natural Gas Utility and its subsidiaries (IGU), a discretely presented component unit of the Fairbanks North Star Borough (Borough), as of and for the year ended June 30, 2020, and the related notes to the consolidating financial statements, which collectively comprise IGU's consolidating financial statements, and have issued our report thereon dated August 18, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered IGU's internal control over financial reporting (internal control) to determine the 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 IGU's internal control. Accordingly, we do not express an opinion on the effectiveness of IGU'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 may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether IGU'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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 IGU's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IGU's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cook - Haugeberg LLC

Certified Public Accountants

Fairbanks, Alaska  
August 18, 2020