



Alliance
CPAs | LLC

INTERIOR ALASKA NATURAL GAS UTILITY

COMPARATIVE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2021 AND 2020

and

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

INTERIOR ALASKA NATURAL GAS UTILITY

COMPARATIVE FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020

TABLE OF CONTENTS

	<u>Page</u>
Management's Discussion and Analysis	iii
Report of Independent Certified Public Accountants	1
Comparative Financial Statements	
Comparative Statement of Net Position	4
Comparative Statement of Revenues, Expenses and Change in Net Position	7
Comparative Statement of Cash Flows	8
Notes to Comparative Financial Statements	11
Supplemental Report Required by <i>Government Auditing Standards</i>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25

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INTERIOR ALASKA NATURAL GAS UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2021

Overview of the Financial Statements

The Statement of Net Position of Interior Alaska Natural Gas Utility (the Utility) 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 discretely 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, liabilities, deferred outflows of resources, 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 reports income, expenses, and resulting change in net position during the reporting period.

The Statement of Net Position and Statement of Revenues, Expenses and Change 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 resulting from our activities during the reporting period.

Notes to Comparative Financial Statements provide more information to better understand the amounts reported in the comparative 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, 2020 to June 30, 2021. 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 comparative financial statements and the accompanying notes.

Financial Highlights

IGU's assets and deferred outflows of resources exceeded its liabilities at June 30, 2021 by \$34.2 million. June 30, 2021 unrestricted net position was \$6.6 million and restricted net position was \$792 thousand. 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.

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2021

Financial Analysis

Following are IGU's total assets and deferred outflows of resources, liabilities and net position at June 30, 2021 and June 30, 2020:

	June 30, 2021	June 30, 2020	Increase (Decrease)
Current assets	\$ 22,701,204	\$ 11,964,559	\$ 10,736,645
Property, plant and equipment	160,093,408	149,970,599	10,122,809
Total assets	182,794,612	161,935,158	20,859,454
Deferred outflows of resources	7,585,686	8,048,037	(462,351)
Total assets and deferred outflows of resources	<u>\$ 190,380,298</u>	<u>\$ 169,983,195</u>	<u>\$ 20,397,103</u>
Current liabilities	\$ 2,355,555	\$ 4,666,590	\$ (2,311,035)
Noncurrent liabilities	153,825,374	128,161,633	25,663,741
Total liabilities	156,180,929	132,828,223	23,352,706
Net investment in capital assets	26,837,335	31,664,959	(4,827,624)
Restricted	792,008	4,001,717	(3,209,709)
Unrestricted	6,570,026	1,488,296	5,081,730
Total net position	<u>34,199,369</u>	<u>37,154,972</u>	<u>(2,955,603)</u>
Total liabilities and net position	<u>\$ 190,380,298</u>	<u>\$ 169,983,195</u>	<u>\$ 20,397,103</u>

Current assets were \$10.7 million higher at June 30, 2021 compared to June 30, 2020 as outlined below:

	June 30, 2021	June 30, 2020	Increase (Decrease)
Cash	\$ 4,417,348	\$ 3,647,647	\$ 769,701
Cash - restricted construction funds	12,582,008	4,001,717	8,580,291
Investments	541,406	541,341	65
Accounts receivable, net allowance for doubtful accounts (\$75,000, 2021 and 2020)	509,740	582,097	(72,357)
Liquefied natural gas inventory	2,735,329	1,777,800	957,529
Materials and supplies inventory	1,082,899	831,824	251,075
Deposits and other current assets	832,474	582,133	250,341
Total current assets	<u>\$ 22,701,204</u>	<u>\$ 11,964,559</u>	<u>\$ 10,736,645</u>

- **Cash** balances were \$770 thousand higher at June 30, 2021 compared to June 30, 2020 largely as a result of previous year lagging loan reimbursements being received. At June 30, 2021, all loan reimbursements related to construction activities were received.
- **Restricted cash** increased \$8.6 million due to the issuance of \$11.79 million in revenue bonds during the year. The bond issuance gross proceeds were \$13.2 million. \$4.6 million in restricted cash was disbursed for payment of bond issuance cost, capitalized interest and IEP project costs. The remaining cash is restricted to IEP projects and is not available for general use.

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2021

- **Investments** increased \$65 due to realized gains.
- **Accounts receivable, net** decreased \$72 thousand due to stronger collections than the previous year, though the COVID-19 pandemic continues. The Utility continues to work with those customers that have called in to request assistance with their bill due to COVID-19 related issues.
- **Liquefied natural gas (LNG) inventory** increased \$958 thousand. The increase is due to additions of inventory to the 5.25 million gallon storage facility.
- **Materials and supplies inventory** increased \$251 thousand in preparation of the summer construction season.
- **Deposits and other current assets** increased \$250 thousand primarily due to prepaid insurance costs.

Property, plant and equipment balances were \$10.1 million higher at June 30, 2021 compared to June 30, 2020 as outlined below:

	June 30, 2021	June 30, 2020	Increase (Decrease)
Property, plant and equipment in service, at cost	\$ 161,481,793	\$ 103,084,400	\$ 58,397,393
Less: accumulated provision for depreciation and amortization	8,928,826	5,078,826	3,850,000
Net property, plant and equipment in service	152,552,967	98,005,574	54,547,393
Gas plant held for future use, at cost	258,846	39,234,592	(38,975,746)
Construction work in progress	7,281,595	12,730,433	(5,448,838)
Total net property, plant and equipment	<u>\$ 160,093,408</u>	<u>\$ 149,970,599</u>	<u>\$ 10,122,809</u>

- **Gas plant in service, at cost** increased \$58.4 million. \$39.0 million of the increase is due to gas plant held for future use assets that were placed into service during the year. \$15.4 million of the increase is the result of the North Pole storage facility being placed into service and transferred out of construction work in progress. \$2.3 million of the increase is due to the purchase of a new office building to house the expanding Utility. \$1.4 million of the increase is due to the addition of services and main lines. The remaining increase of \$300 thousand is a combination of various other small capital projects completed throughout the year.
- **Gas plant held for future use, at cost** decreased \$39.0 million due to the Utility placing distribution mains constructed between 2014 and 2015 into service. The main lines are located in both Fairbanks and North Pole, Alaska.
- **Construction work in progress** decreased \$5.5 million due to the transfers of \$15.4 million for the North Pole storage facility and \$1.4 million for the construction of services and mains which were placed into service during the year. Included in the transfers was \$11.3 million of additions to construction work in progress during the year from the construction activities on the North Pole storage facility and services and mains.

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2021

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 \$2.3 million lower at June 30, 2021 compared to June 30, 2020 as outlined below:

	June 30, 2021	June 30, 2020	Increase (Decrease)
Current maturities of long-term debt	\$ 420,366	\$ 328,836	\$ 91,530
Accrued wages and burden	303,451	251,067	52,384
Accounts payable	1,039,034	767,882	271,152
Construction payable	566,842	3,236,373	(2,669,531)
Other current and accrued liabilities	25,862	82,432	(56,570)
	<u>\$ 2,355,555</u>	<u>\$ 4,666,590</u>	<u>\$ (2,311,035)</u>
Total current liabilities			

- **Current maturities of long-term debt** increased \$92 thousand. \$76 thousand of the increase is due to the new office building that was acquired during the year. The additional \$16 thousand is related to two equipment loans that are approaching maturity and the land contract with Golden Valley Electric Association.
- **Accrued wages and burden** increased \$52 thousand. No significant activity caused this variance.
- **Accounts payable** increased \$271 thousand. The increase is largely due to the increased purchases of natural gas to liquefy for LNG inventory and maintenance parts and supplies associated with the LNG plant.
- **Construction payable** decreased \$2.7 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** decreased \$57 thousand. No significant activity caused this variance.

Noncurrent liabilities were \$25.7 million higher at June 30, 2021 compared to June 30, 2020 as outlined below:

	June 30, 2021	June 30, 2020	Increase (Decrease)
Accumulated deferred compensation	\$ 541,406	\$ 541,341	\$ 65
Long-term debt, less current maturities			
Revenue bonds payable (Series 2020A)	11,790,000		11,790,000
AIDEA term loan	137,487,315	125,287,471	12,199,844
Land contract - GVEA	1,635,248	1,798,126	(162,878)
Mt. McKinley Bank commercial loan	2,017,947		2,017,947
Equipment loans payable	353,458	534,695	(181,237)
	<u>\$ 153,825,374</u>	<u>\$ 128,161,633</u>	<u>\$ 25,663,741</u>
Total noncurrent liabilities			

- **Accumulated deferred compensation** increased \$65 due to realized gains of the deferred compensation account.

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2021

- **Revenue bonds payable (Series 2020A)** increased \$11.8 million due to the issuance of the \$11.79 million revenue bonds during the year previously described in the restricted cash note.
- **AIDEA term loan** increased \$12.2 million. The loan proceeds were used in the continued construction activities related to the North Pole storage facility.
- **Land contract - GVEA** decreased \$163 thousand due to the scheduled payments on the land contract. The land contract is related to the land at the North Pole storage facility.
- **Mt. McKinley Bank commercial loan** increased \$2.0 million due to the acquisition of the new office building. The building was purchased using financing from a loan through Mt. McKinley Bank.
- **Equipment loans payable** decreased \$181 thousand due to the scheduled payments on the loans. The equipment loans are related to liquefied natural gas (LNG) transport trailers.

Total net position decreased \$3.0 million during the period ended June 30, 2021 as outlined below:

Beginning net position (July 1, 2020)	\$ 37,154,972
Net change resulting from operating and nonoperating activities	<u>(2,955,603)</u>
Ending net position (June 30, 2021)	<u>\$ 34,199,369</u>

Net position at June 30, 2021 was categorized as follows:

Net investment in capital assets	\$ 26,837,335
Restricted	792,008
Unrestricted	<u>6,570,026</u>
Ending net position (June 30, 2021)	<u>\$ 34,199,369</u>

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2021

Following are the Utility's operating revenues and expenses, net nonoperating revenues (expenses) and change in net position for the period July 1, 2020 to June 30, 2021 compared to the period July 1, 2019 to June 30, 2020:

	June 30, 2021	June 30, 2020	Increase (Decrease)
Operating revenues			
Residential sales	\$ 1,543,112	\$ 1,265,357	\$ 277,755
Commercial sales	12,931,637	12,692,794	238,843
Interruptible sales	3,292,811	2,968,805	324,006
Other operating revenues	480,608	338,946	141,662
Total operating revenues	<u>18,248,168</u>	<u>17,265,902</u>	<u>982,266</u>
Operating expenses			
Natural gas purchases	7,610,275	7,514,128	96,147
Trucking	1,917,725	1,841,262	76,463
Electricity	1,041,400	989,549	51,851
Gas liquefaction expenses	1,825,545	1,871,275	(45,730)
Fairbanks distribution operations	404,115	360,935	43,180
Fairbanks distribution maintenance	84,877	79,051	5,826
Fairbanks storage and vaporization operations	742,076	474,903	267,173
Fairbanks storage and vaporization maintenance	61,685	54,741	6,944
Engineering	127,569	192,815	(65,246)
Talkeetna maintenance	2,995	13,359	(10,364)
Customer service	354,225	310,909	43,316
Administrative and general expenses	2,849,025	2,916,721	(67,696)
Interest expense	534,723	35,169	499,554
Depreciation	3,850,000	2,751,099	1,098,901
Amortization	462,351	462,351	
Total operating expenses	<u>21,868,586</u>	<u>19,868,267</u>	<u>2,000,319</u>
Operating loss	<u>(3,620,418)</u>	<u>(2,602,365)</u>	<u>(1,018,053)</u>
Nonoperating revenues (expenses)			
Gain from disposition of property, plant and equipment	2,500	100	2,400
Interest and dividend income	7,353	6,341	1,012
Other income	11,791	56,364	(44,573)
Proceeds from bond premium (Series 2020A)	1,384,570		1,384,570
Cost of issuance of bonds (Series 2020A)	(741,399)		(741,399)
Nonoperating revenues (expenses) total	<u>664,815</u>	<u>62,805</u>	<u>602,010</u>
Change in net position	<u>(2,955,603)</u>	<u>(2,539,560)</u>	<u>(416,043)</u>
Net position - beginning of period	<u>37,154,972</u>	<u>39,694,532</u>	<u>(2,539,560)</u>
Net position - end of period	<u>\$ 34,199,369</u>	<u>\$ 37,154,972</u>	<u>\$ (2,955,603)</u>

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2021

Operating revenues for the period July 1, 2020 to June 30, 2021 are described as follows:

- **Residential sales** include tariff rate approved sales for customers classified as residential. Residential sales increased \$278 thousand due to the addition of new customers.
- **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 \$239 thousand due to the addition of new customers.
- **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 increased \$324 thousand due to a combination of customers choosing to consume gas instead of their alternative fuels (i.e. heating oil or coal) for cost reasons.
- **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 \$142 thousand largely due to increased service charges resulting from new customers and gas application fees for new customers to be installed during the summer construction season in FY22.

Operating expenses for the period July 1, 2020 to June 30, 2021 are described as follows:

- **Natural gas purchases** represent the cost of gas consumed by all customers serviced by the Utility. Natural gas purchases increased \$96 thousand due to increased sales from new customers.
- **Trucking** represents the cost of transporting LNG from the LNG plant to the LNG storage facilities. Trucking increased \$76 thousand due to increased sales from new customers.
- **Electricity** represents the cost of electricity used in the natural gas liquefaction process. Electricity increased \$52 thousand largely due to increased sales from new customers.
- **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. Gas liquefaction expenses decreased \$46 thousand largely due to both planned and unexpected maintenance costs in the prior year which did not occur during the current year.
- **Distribution operations** includes costs related to general operations of the distribution system located in Fairbanks, AK. Distribution operations increased \$43 thousand for the year largely due to temporary laborers that 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 North Pole storage facility. 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 increased \$6 thousand for the year. No significant activity caused the increase.

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2021

- **Storage and vaporization operations** includes costs related to general operations of the storage and vaporization systems located in Fairbanks, AK, North Pole, AK, and Talkeetna, AK and a storage system located in Houston, AK. The storage and vaporization operations increase of \$267 thousand is related to increased gas usage expense for vaporization of LNG for distribution due to higher sales, increased labor expense for operation of the 5.25 million gallon tank facility and North Pole storage facility, and increased electricity expense for the operation of the 5.25 million gallon tank facility and North Pole storage facility. This was the first full year of operation for the 5.25 million gallon tank facility and the North Pole storage facility began operation in March 2021.
- **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. Storage and vaporization maintenance increased \$7 thousand for the year. No significant activity caused the increase.
- **Engineering** includes costs for in-house engineering related to capital projects and state/federal regulation compliance. Engineering decreased \$65 thousand largely due to capitalization of engineering wages to construction projects and a vacant engineering position in fiscal year 2021.
- **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 decreased \$10 thousand due to an unexpected repair to the LNG vaporizer in the previous year that did not occur in the current year.
- **Customer service** includes costs for servicing of customer accounts, outside sales, meter reading and general customer support. Customer service increased \$43 thousand due to an increase in sales expense, increase in credit card processing fees due to higher sales accounts being paid electronically, and increase in labor expense due to the addition of an outside sales position during June 2021.
- **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 decreased \$68 thousand for the year. No significant activity caused the decrease.
- **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 \$1.10 million due to placing the North Pole storage facility, distribution mains, and new office building in service, and recognition of related depreciation on those assets during the year.

Fixed charges for the period July 1, 2020 to June 30, 2021 consisted of:

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

Net nonoperating revenues (expenses) are comprised of gains/(losses) from dispositions of property, plant and equipment, interest/dividend income from investments, and proceeds/costs related to the issuance of revenue bonds (Series 2020A).



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Report of Independent Certified Public Accountants

Interior Alaska Natural Gas Utility

Report on the Financial Statements

We have audited the accompanying comparative statement of net position, and the related comparative statements of revenues, expenses and change in net position, and cash flows of 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, 2021 and 2020, and the related notes to the comparative financial statements, which collectively comprise IGU's comparative financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these comparative 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 comparative 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 comparative 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 comparative financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the comparative financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the comparative 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 comparative 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 comparative financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the comparative net position of Interior Alaska Natural Gas Utility as of June 30, 2021 and 2020, and its revenues, expenses and change in net position and cash flows for the years 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 - x be presented to supplement the comparative financial statements. Such information, although not a part of the comparative financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the comparative 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 comparative financial statements, and other knowledge we obtained during our audit of the comparative financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2021 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.

Alliance CPAs LLC

October 18, 2021

COMPARATIVE FINANCIAL STATEMENTS

INTERIOR ALASKA NATURAL GAS UTILITY
COMPARATIVE STATEMENT OF NET POSITION

June 30, 2021 and 2020

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2021</u>	<u>2020</u>
Property, plant and equipment		
Property, plant and equipment in service, at cost	\$ 161,481,793	\$ 103,084,400
Less: accumulated provision for depreciation and amortization	<u>8,928,826</u>	<u>5,078,826</u>
Net property, plant and equipment in service	152,552,967	98,005,574
Gas plant held for future use, at cost	258,846	39,234,592
Construction work in progress	<u>7,281,595</u>	<u>12,730,433</u>
Net property, plant and equipment	<u>160,093,408</u>	<u>149,970,599</u>
Current assets		
Cash	4,417,348	3,647,647
Cash - restricted construction funds	12,582,008	4,001,717
Investments	541,406	541,341
Accounts receivable, net	509,740	582,097
Liquefied natural gas inventory	2,735,329	1,777,800
Materials and supplies inventory	1,082,899	831,824
Deposits and other current assets	<u>832,474</u>	<u>582,133</u>
Total current assets	<u>22,701,204</u>	<u>11,964,559</u>
Deferred outflows of resources		
Gas plant acquisition adjustment	<u>7,585,686</u>	<u>8,048,037</u>
Total assets and deferred outflows of resources	<u>\$ 190,380,298</u>	<u>\$ 169,983,195</u>

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

<u>LIABILITIES AND NET POSITION</u>		<u>2021</u>	<u>2020</u>
Current liabilities			
Current maturities of long-term debt	\$	420,366	\$ 328,836
Accrued wages and burden		303,451	251,067
Accounts payable		1,039,034	767,882
Construction payable		566,842	3,236,373
Other current and accrued liabilities		25,862	82,432
Total current liabilities		<u>2,355,555</u>	<u>4,666,590</u>
Noncurrent liabilities			
Accumulated deferred compensation		541,406	541,341
Long-term debt, less current maturities			
Revenue bonds payable (Series 2020A)		11,790,000	
AIDEA term loan		137,487,315	125,287,471
Land contract - GVEA		1,635,248	1,798,126
Mt. McKinley Bank commercial loan		2,017,947	
Equipment loans payable		353,458	534,695
Total noncurrent liabilities		<u>153,825,374</u>	<u>128,161,633</u>
Net position			
Net investment in capital assets		26,837,335	31,664,959
Restricted		792,008	4,001,717
Unrestricted		6,570,026	1,488,296
Total net position		<u>34,199,369</u>	<u>37,154,972</u>
Total liabilities and net position	\$	<u>190,380,298</u>	<u>\$ 169,983,195</u>

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INTERIOR ALASKA NATURAL GAS UTILITY

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenues		
Residential sales	\$ 1,543,112	\$ 1,265,357
Commercial sales	12,931,637	12,692,794
Interruptible sales	3,292,811	2,968,805
Other operating revenues	480,608	338,946
Total operating revenues	<u>18,248,168</u>	<u>17,265,902</u>
Operating expenses		
Natural gas purchases	7,610,275	7,514,128
Trucking	1,917,725	1,841,262
Electricity	1,041,400	989,549
Gas liquefaction expenses	1,825,545	1,871,275
Fairbanks distribution operations	404,115	360,935
Fairbanks distribution maintenance	84,877	79,051
Fairbanks storage and vaporization operations	742,076	474,903
Fairbanks storage and vaporization maintenance	61,685	54,741
Engineering	127,569	192,815
Talkeetna maintenance	2,995	13,359
Customer service	354,225	310,909
Administrative and general expenses	2,632,030	2,740,090
Taxes	216,995	176,631
Interest expense	534,723	35,169
Depreciation	3,850,000	2,751,099
Amortization	462,351	462,351
Total operating expenses	<u>21,868,586</u>	<u>19,868,267</u>
Operating loss	<u>(3,620,418)</u>	<u>(2,602,365)</u>
Nonoperating revenues (expenses)		
Gain from disposition of property, plant and equipment	2,500	100
Interest and dividend income	7,353	6,341
Other income	11,791	56,364
Proceeds from bond premium (Series 2020A)	1,384,570	
Cost of issuance of bonds (Series 2020A)	(741,399)	
Nonoperating revenues (expenses) total	<u>664,815</u>	<u>62,805</u>
Change in net position	<u>(2,955,603)</u>	<u>(2,539,560)</u>
Net position - beginning of period	<u>37,154,972</u>	<u>39,694,532</u>
Net position - end of period	<u>\$ 34,199,369</u>	<u>\$ 37,154,972</u>

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

INTERIOR ALASKA NATURAL GAS UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2021 and 2020

Increase (Decrease) in Cash and Restricted Cash	2021	2020
Cash flows from operating activities		
Cash received from customers	\$ 18,259,322	\$ 16,943,765
Cash paid to suppliers	(15,576,414)	(15,265,201)
Cash paid related to employees	(2,564,083)	(2,568,367)
Net cash provided by (used in) operating activities	<u>118,825</u>	<u>(889,803)</u>
Cash flows from capital and related financing activities		
Proceeds from issuance of long-term debt	26,083,844	23,221,676
Proceeds from premium received on bond issuance	1,384,570	
Principal payments on long-term debt	(328,638)	(166,053)
Interest payments	(534,723)	(35,169)
Payments for bond issuance costs	(741,399)	
Proceeds from disposal of property, plant and equipment	2,500	100
Construction work in progress	(14,248,251)	(17,807,367)
Property, plant and equipment additions	(2,394,089)	(2,583,793)
Net cash provided by capital and related financing activities	<u>9,223,814</u>	<u>2,629,394</u>
Cash flows from investing activities		
Interest and dividends received	7,353	6,341
Purchase of investments		(50,000)
Net cash provided by (used in) investing activities	<u>7,353</u>	<u>(43,659)</u>
Net increase in cash and restricted cash	9,349,992	1,695,932
Cash and restricted cash at beginning of year	<u>7,649,364</u>	<u>5,953,432</u>
Cash and restricted cash at end of year	<u>\$ 16,999,356</u>	<u>\$ 7,649,364</u>
Included in cash and restricted cash:		
Cash	\$ 4,417,348	\$ 3,647,647
Cash - restricted construction funds	12,582,008	4,001,717
	<u>\$ 16,999,356</u>	<u>\$ 7,649,364</u>

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

INTERIOR ALASKA NATURAL GAS UTILITY

COMPARATIVE STATEMENT OF CASH FLOWS

(Continued)

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	\$ (3,620,418)	\$ (2,602,365)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization	4,312,351	3,213,450
Interest expense	534,723	35,169
Other income	11,791	56,364
(Increase) decrease in assets		
Accounts receivable, net	72,357	(64,808)
Liquefied natural gas inventory	(957,529)	(1,378,136)
Materials and supplies inventory	(251,075)	(345,216)
Deposits and other current assets	(250,341)	(236,039)
Increase (decrease) in liabilities		
Accrued wages and burden	52,384	38,229
Accounts payable	271,152	279,093
Other current and accrued liabilities	(56,570)	64,456
Accumulated deferred compensation		50,000
Total adjustments	<u>3,739,243</u>	<u>1,712,562</u>
Net cash provided by (used in) operating activities	<u>\$ 118,825</u>	<u>\$ (889,803)</u>

Noncash Investing and Financing Activities

During the year ended June 30, 2021 IGU reclassified meters, distribution pipe, and pipe fittings installed from materials and supplies inventory to the proper asset account in the amount of \$249,711.

For the years ended June 30, 2021 and 2020, construction payable included costs capitalized to construction work in progress totaling \$566,842 and \$3,439,880, respectively.

During the year ended June 30, 2021, IGU placed \$38,975,746 of distribution mains constructed between 2014 and 2015 into service. Such assets were reclassified from Gas plant held for future use to the proper asset account.

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

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INTERIOR ALASKA NATURAL GAS UTILITY
NOTES TO COMPARATIVE FINANCIAL STATEMENTS

DESCRIPTION OF ORGANIZATION

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 consolidated financial statements of IGU, a discretely presented component unit of the Borough, for the year ended June 30, 2020 included the accounts of Pentex Alaska Natural Gas Co., LLC (Pentex), 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 of the IGU owned companies were dissolved and such accounts and operations were consolidated under one unified utility, IGU.

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

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

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 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).

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO COMPARATIVE FINANCIAL STATEMENTS

(Continued)

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 comparative 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, 2021 and 2020, there were no environmental issues meeting both of these criteria and, accordingly, no provision has been made in the accompanying comparative 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, and other income relating to line hit repairs to be part of its ongoing operations and classifies them as operating in the statement of revenues, expenses, and change in net position.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO COMPARATIVE FINANCIAL STATEMENTS

(Continued)

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 October 18, 2021, the date on which the comparative 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, 2021:

	Balance at July 1, 2020	Additions	Deletions	Balance at June 30, 2021
Nondepreciable components of property, plant and equipment				
Land	\$ 2,544,237	\$ 52,724	\$	\$ 2,596,961
Intangible plant - CPCN	729,676			729,676
Gas plant held for future use, at cost	39,234,592		(38,975,746)	258,846
Construction work in progress	12,730,433	11,136,517	(16,585,355)	7,281,595
Total nondepreciable components of property, plant and equipment	55,238,938	11,189,241	(55,561,101)	10,867,078
Depreciable components of property, plant and equipment				
Distribution, storage and vaporization	86,543,510	55,935,620	(83,840)	142,395,290
LNG production equipment	8,035,689			8,035,689
General plant				
Structures and improvements	3,057,303	2,348,702		5,406,005
Transportation and power-operated equipment	2,084,825	102,308		2,187,133
Furniture and office equipment	89,160	41,879		131,039
Total depreciable components of property, plant and equipment	99,810,487	58,428,509	(83,840)	158,155,156
Less: accumulated provision for depreciation				
Distribution, storage and vaporization	(3,182,098)	(2,972,495)		(6,154,593)
LNG production equipment	(1,360,576)	(699,310)		(2,059,886)
General plant				
Structures and improvements	(273,191)	(132,985)		(406,176)
Transportation and power-operated equipment	(194,258)	(20,639)		(214,897)
Furniture and office equipment	(68,703)	(24,571)		(93,274)
Total accumulated provision for depreciation and amortization	(5,078,826)	(3,850,000)		(8,928,826)
Total depreciable components of property, plant and equipment, net	94,731,661	54,578,509	(83,840)	149,226,330
Net property, plant and equipment	\$ 149,970,599	\$ 65,767,750	\$ (55,644,941)	\$ 160,093,408

Depreciation expense totaled \$3,850,000 and \$2,751,099 for property, plant and equipment for the fiscal years ended June 30, 2021 and 2020, respectively.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO COMPARATIVE FINANCIAL STATEMENTS

(Continued)

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources at June 30, 2021 and 2020 consisted of a \$1,789,878 gas plant acquisition adjustment which resulted from the purchase of Pentex by AIDEA and a \$5,795,808 gas plant acquisition adjustment resulting from the purchase of Pentex by IGU. The acquisition adjustments will be recognized as amortization expense as follows:

Year ending June 30:	Amount
2022	\$ 462,351
2023	462,351
2024	462,351
2025	462,351
2026 - 2030	2,311,753
2031 - 2035	2,311,753
2036 - 2040	1,067,307
2041 - 2045	14,909
2046 - 2050	14,909
2051 - 2055	14,909
2056	742
	<u>\$ 7,585,686</u>

Amortization expense for the years ended June 30, 2021 and 2020 was \$462,351.

FAIR VALUE OF FINANCIAL INSTRUMENTS

IGU maintains money market funds at U.S. Bancorp (Level 1 inputs). As of June 30, 2021 and 2020, the money market funds held in the investment account totaled \$541,406 and \$541,341, respectively.

ACCOUNTS RECEIVABLE

The accounts receivable balances as of June 30, 2021 and 2020, were as follows:

	2021	2020
Trade	\$ 584,740	\$ 657,097
Less: allowance for doubtful accounts	(75,000)	(75,000)
	<u>\$ 509,740</u>	<u>\$ 582,097</u>

All natural gas sales were billed at June 30, 2021 and 2020.

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

INVENTORIES

Inventories consisted of the following on June 30, 2021 and 2020:

	2021	2020
Liquefied natural gas inventory	\$ 2,735,329	\$ 1,777,800
Materials and supplies inventory	1,082,899	831,824
	<u>\$ 3,818,228</u>	<u>\$ 2,609,624</u>

LONG-TERM DEBT

Long-term debt consisted of the following:

	Balance at July 1, 2020	Additions	Principal payments	Balance at June 30, 2021	Amounts due within one year
\$11,790,000 Series 2020A revenue bonds at 5.0 to 5.25 percent	\$	\$ 11,790,000	\$	\$ 11,790,000	\$
AIDEA 0.25 percent term loan payable	125,287,471	12,199,844		137,487,315	
Golden Valley Electric Association 5.00 percent promissory note	1,953,483		(155,357)	1,798,126	162,878
Mt. McKinley Bank 3.17 percent note payable		2,094,000		2,094,000	76,053
Wells Fargo Equipment Finance, Inc. 4.15 percent note payable	159,346		(50,930)	108,416	53,085
Wells Fargo Equipment Finance, Inc. 4.48 percent note payable	548,828		(122,351)	426,477	128,350
	<u>\$ 127,949,128</u>	<u>\$ 26,083,844</u>	<u>\$ (328,638)</u>	<u>\$ 153,704,334</u>	<u>\$ 420,366</u>

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

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO COMPARATIVE FINANCIAL STATEMENTS (Continued)

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

The 4.15 percent note payable 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 to Wells Fargo Equipment Finance, Inc. is payable in monthly installments of \$12,053 including interest and becomes due on August 29, 2024. The note is secured by three 2017 Heil LNG transport trailers.

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

	Principal	Interest	Total
2022	\$ 420,366	\$ 772,313	\$ 1,192,679
2023	439,673	752,808	1,192,481
2024	616,578	734,322	1,350,900
2025	522,025	707,592	1,229,617
2026	520,052	684,207	1,204,259
2027-68	151,185,640	15,830,711	167,016,351
	<u>\$ 153,704,334</u>	<u>\$ 19,481,953</u>	<u>\$ 173,186,287</u>

OPERATING LEASES

Operating lease terms are outlined as follows:

IGU leased an office facility for Board of Directors activities in Fairbanks, Alaska, for a monthly rent of \$1,500. This lease was terminated on July 31, 2020. The lease expense for the fiscal years ended June 30, 2021 and 2020 was \$1,500 and \$18,000, respectively.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO COMPARATIVE FINANCIAL STATEMENTS (Continued)

IGU leased office facilities at 3408 International Street in Fairbanks, Alaska under an operating lease. The lease became effective September 19, 2019. Monthly payments were \$12,075, which consisted of the base lease payment of \$10,608 and an additional lease payment of \$1,467. The additional lease payment was for property taxes and insurance and was subject to a "true-up" annually based on actual costs. Annual lease expense for the fiscal years ended June 30, 2021 and 2020 was \$148,373 and \$149,753, respectively. This lease was terminated in August 2021.

IGU leases land from Fisher's Fuel, Inc. The initial lease required annual payments starting at \$6,000 in the first year and increasing annually by 1.5 percent in each subsequent year for five years with two automatic five-year extensions. The lease was renewed for an additional five years in June 2017. Lease payments charged to income totaled \$6,759 and \$6,659 for the fiscal years ended June 30, 2021 and 2020, respectively.

The following is a schedule of future minimum lease payments for operating leases as of June 30, 2021:

	3408 International Street	Fisher's Fuel, Inc.	Total
2022	\$ 24,150	\$ 6,860	\$ 31,010
2023		6,963	6,963
2024		7,068	7,068
2025		7,174	7,174
2026		7,282	7,282
	<u>\$ 24,150</u>	<u>\$ 35,347</u>	<u>\$ 59,497</u>

DEFERRED COMPENSATION LIABILITY

IGU previously maintained a deferred compensation plan for the president of the company (the executive). Under the plan, the executive was 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 were recorded as adjustments to the offsetting investment and the liability balance. Normal vesting occurred in the following manner: 1/26th of the annual award shall vest at the end of each subsequent bi-weekly pay period. The plan was unfunded; therefore, benefits were paid from the general assets of the company and were not accumulated via a trust or equivalent arrangement. On May 4, 2021, the Board of Directors terminated this deferred compensation plan via resolution 2021-08. As of June 30, 2021, the investment and related liability remain on the statement of net position, but there was no contribution made to the plan during the year. The total benefit amount accrued at June 30, 2021 and 2020 was \$541,406 and \$541,341, respectively.

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

NET POSITION

Net position consisted of the following at June 30, 2021:

	June 30, 2021
Net investment in capital assets	
Total capital assets	\$ 160,093,408
Gas plant acquisition adjustment	7,585,686
Materials and supplies inventory	1,082,899
AIDEA term loan (net of restricted funds unspent)	(136,930,797)
Land contract - GVEA	(1,798,126)
Construction payable	(566,842)
Mt. McKinley Bank commercial loan	(2,094,000)
Equipment loans payable	(534,893)
Total net investment in capital assets	26,837,335
Restricted	792,008
Unrestricted	6,570,026
Net position	<u>\$ 34,199,369</u>

NATURAL GAS PURCHASE AND TRANSPORTATION CONTRACTS

In August 2017 IGU entered into a "Gas Sale and Purchase Agreement" with Hilcorp Alaska, LLC to purchase natural gas. The agreement, which was effective August 1, 2017, expired March 31, 2021. On January 1, 2021, IGU entered into a new "Gas Sale and Purchase Agreement" with Hilcorp Alaska, LLC with an expiration date of March 31, 2026 and two 3 year extension options.

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 June 2019 IGU entered into an "LNG Transportation Agreement" with Big State Logistics, Inc. for transportation of LNG. The agreement has an initial term of July 1, 2019 until June 30, 2022 and will automatically renew for additional one year periods from July to June until terminated by either party. During fiscal year 2021 Big State Logistics, Inc. was acquired by STR, Inc. and the contract was reassigned to STR, Inc.

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

RETIREMENT PLANS

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, 2021 and 2020 IGU's matching contributions to all plans totaled \$61,486 and \$50,671, respectively.

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 August 22, 2019. Under the terms of the collective-bargaining agreement, IGU contributes \$1.25 per hour for each regular employee covered by the agreement to the AETF Money Purchase Pension Plan. For the years ended June 30, 2021 and 2020, annual contributions of \$14,359 and \$11,100, respectively, were made to the plan.

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 \$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 \$16,817,815, the uninsured and uncollateralized balance was \$12,674,693 at June 30, 2021. Of bank balances totaling \$7,711,404, the uninsured and uncollateralized balance was \$2,457,131 at June 30, 2020. IGU believes it is not exposed to any significant credit risk on cash and cash equivalents.

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

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 various Statements and Implementation Guides effective for periods beginning after June 15, 2018, and later. GASB 95 was effective immediately upon issuance.

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, postponed by GASB Statement No. 95, 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.

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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

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 comparative statement of net position, and the related comparative statements of revenues, expenses and change in net position, and cash flows of Interior Alaska Natural Gas Utility (IGU), a discretely presented component unit of the Fairbanks North Star Borough (Borough), as of and for the year ended June 30, 2021, and the related notes to the comparative financial statements, which collectively comprise IGU's comparative financial statements, and have issued our report thereon dated October 18, 2021.

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) 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 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 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 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.

A handwritten signature in black ink that reads "Alliance CPAs LLC". The script is cursive and fluid.

Certified Public Accountants

Fairbanks, Alaska
October 18, 2021