

INTERIOR ALASKA NATURAL GAS UTILITY

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

Years Ended June 30, 2023 and 2022

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INTERIOR ALASKA NATURAL GAS UTILITY

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Interior Alaska Natural Gas Utility (IGU), a discretely presented component unit of the Fairbanks North Star Borough, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Interior Alaska Natural Gas Utility's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Interior Alaska Natural Gas Utility as of June 30, 2023 and 2022, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Interior Alaska Natural Gas Utility, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Interior Alaska Natural Gas Utility's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Interior Alaska Natural Gas Utility's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Interior Alaska Natural Gas Utility's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2023, on our consideration of the Interior Alaska Natural Gas Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Interior Alaska Natural Gas Utility's internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Interior Alaska Natural Gas Utility's internal control over financial reporting and compliance.



Anchorage, Alaska
September 12, 2023

INTERIOR ALASKA NATURAL GAS UTILITY

Management Discussion and Analysis

Year Ended June 30, 2023

Overview of the Financial Statements

The statement of Net Position of Interior Alaska Natural Gas Utility (the Utility/IGU) and Statement of Revenues, Expenses, and Change in Net Position presented in this management's discussion and analysis are on a comparative basis. The financial statements contain three sections: management's discussion and analysis, comparative financial statements, and notes to comparative financial statements. IGU operations are business type activities and follow enterprise fund accounting. IGU is a 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, deferred outflows of resources, liabilities, and net position at year-end. Net position is reported as: net investment in capital assets, restricted, and unrestricted.

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

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

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

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

Management's Discussion and Analysis

This section contains an analysis of the financial position and results of operations for the period July 1, 2022 to June 30, 2023. 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.

INTERIOR ALASKA NATURAL GAS UTILITY

Management Discussion and Analysis, Continued

Financial Highlights

IGU's assets and deferred outflows of resources exceeded its liabilities at June 30, 2023 by \$24.8 million. June 30, 2023 unrestricted net position was \$8.1 million. The unrestricted net position was available for future financial needs. Of the unrestricted net position \$2.4 million is committed to future construction activities related to the Interior Energy Project (IEP) capital projects and another \$873 thousand is reserved for debt obligations.

Financial Analysis

Following are IGU's total assets and deferred outflows of resources, liabilities and net position at June 30, 2023 and June 30, 2022:

	June 30, 2023	June 30, 2022	Increase (Decrease)
Current assets	\$ 15,188,909	18,991,230	(3,802,321)
Property, plant and equipment, net of depreciation	159,996,035	160,681,157	(685,122)
Total assets	<u>175,184,944</u>	<u>179,672,387</u>	<u>(4,487,444)</u>
Deferred outflows of resources	<u>6,660,985</u>	<u>7,123,335</u>	<u>(462,351)</u>
Total assets and deferred outflows of resources	\$ <u>181,845,929</u>	<u>186,795,722</u>	<u>(4,949,794)</u>
Current liabilities	\$ 2,548,477	3,462,138	(913,660)
Noncurrent liabilities	<u>154,511,744</u>	<u>154,945,692</u>	<u>(433,948)</u>
Total liabilities	157,060,221	158,407,830	(1,347,609)
Total net position	<u>24,785,708</u>	<u>28,387,892</u>	<u>(3,602,185)</u>
Total liabilities and net position	\$ <u>181,845,929</u>	<u>186,795,722</u>	<u>(4,949,794)</u>

Current assets were \$3.8 million lower at June 20, 2023 compared to June 30, 2022 as outlined below:

	June 30, 2023	June 30, 2022	Increase (Decrease)
Cash	\$ 4,642,823	3,870,491	772,332
Cash – restricted construction funds	3,224,506	8,941,785	(5,717,279)
Accounts receivable, net of allowance for doubtful account (\$75,000, 2022 and 2021)	1,104,109	770,091	334,018
Liquefied natural gas inventory	3,684,515	2,893,384	791,132
Material and supplies inventory	1,734,831	1,828,940	(94,109)
Deposits and other current assets	<u>798,125</u>	<u>686,539</u>	<u>111,586</u>
Total current assets	\$ <u>15,188,909</u>	<u>18,991,230</u>	<u>(3,802,321)</u>

INTERIOR ALASKA NATURAL GAS UTILITY

Management Discussion and Analysis, Continued

- **Cash** balances were \$772 thousand higher at June 30, 2023 compared to June 30, 2022 largely as a result of higher sale during the year.
- **Restricted cash** decreased \$5.7 million due to the continued construction of mains and new services related to the IEP project. The remaining balance is restricted to IEP projects and is not available for general use.
- **Accounts receivable** increased \$334 thousand due to an increase in sales from the addition of new services from the construction activities performed during the year, and other receivable for reimbursement for services installed in excess of 100 feet. The Utility subsidizes the first 100 feet of construction cost of the service line for the customer by only charging \$225 for the first 100 feet; known as the application fee. The customer is responsible for the actual construction costs greater than the subsidized 100 feet.
- **Liquefied Natural Gas (LNG) inventory** increased \$791 thousand. The increase is due to additions of inventory to the 5.25 million gallon storage facility.
- **Materials and supplies inventory** decreased \$94 thousand due to the installation of service lines at the start of the summer construction season.
- **Deposits and other current assets** increased \$112 thousand primarily due to increased prepaid insurance costs.

Property, plant & equipment balances were \$685 thousand lower at June 30, 2023 compared to June 30, 2022. The following schedule outlines the current year activity:

	June 30, 2023	June 30, 2022	Increase (Decrease)
Gas plant in service, at cost	\$ 171,340,053	166,169,990	5,170,063
Less: accumulated provision for depreciation and amortization	18,975,271	13,904,816	(5,070,455)
Net property, plant and equipment in service	152,364,782	152,265,174	99,608
 Gas plant held for future use, at cost	 258,846	 258,846	 -
Construction work in progress	7,372,407	8,157,137	(784,730)
Total property, plant and equipment	\$ 159,996,035	160,681,157	(685,122)

- **Gas plant in service, at cost** increased \$5.17 million. \$4.956 million of the increase is due to mains and services being put into service. The remaining increase of \$214 thousand is a combination of various other small capital projects complete throughout the year.
- **Gas plant held for future use, at cost** remained unchanged for the year.
- **Construction work in progress** decreased \$784 thousand due to the spring weather did not allow summer construction activities to begin early as it did in the previous year.

INTERIOR ALASKA NATURAL GAS UTILITY

Management Discussion and Analysis, Continued

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

Current liabilities were \$913 thousand lower at June 30, 2023 compared to June 30, 2022 as outlined below:

	June 30, 2023	June 30, 2022	Increase (Decrease)
Current maturities of long-term debt	\$ 401,537	439,673	(38,136)
Accrued wages and burden	186,368	189,185	(2,817)
Accounts payable	1,444,982	1,835,813	(390,831)
Construction payables	32,549	997,279	(964,730)
Other current and accrued liabilities	483,041	188	482,853
Total current liabilities	\$ 2,548,477	3,462,138	(913,661)

- **Current portion of long term debt** decreased \$38 thousand. The decrease is related to one equipment loan that matured during the year.
- **Accrued wages and burden** decreased \$3 thousand. No significant activity caused this variance.
- **Accounts payable** decreased \$391 thousand. The decrease is largely due to the previous year had increased purchases of LNG inventory and maintenance parts and supplies associated with the LNG plant. The current year did not have the same activity as the previous year.
- **Construction payable** decreased \$965 thousand. The payable is related to the construction activities of the previously listed project in the construction work in progress note.
- **Other current and accrued liabilities** increased \$483 thousand. The increase is related to the recording of two contingent liabilities associated with alleged probable Pipeline Hazardous Materials Safety Administration violations. The violation assessments have not been finalized, but the potential maximum amount is known. The Utility is currently contesting the violations.

Noncurrent liabilities were \$434 thousand lower at June 30, 2023 compared to June 30, 2022 as outlined below:

	June 30, 2023	June 30, 2022	Increase (Decrease)
Long-term debt, less current maturities:			
Revenue bonds payable (Series 2020A), net \$ unamortized bond premium & issuance costs	12,346,414	21,378,712	(32,298)
AIDEA term loan	139,000,000	139,000,000	-
Land contract – GVEA	1,284,074	1,463,866	(179,792)
Mt. McKinley Bank commercial loan	1,857,283	1,938,452	(81,169)
Equipment loans payable	23,973	164,662	(140,689)
Total noncurrent liabilities	\$ 154,511,744	154,945,692	(433,948)

INTERIOR ALASKA NATURAL GAS UTILITY

Management Discussion and Analysis, Continued

- **Revenue bonds payable (Series 2020A)** decreased \$32 thousand due to the amortization of the bond premium and issuance costs. June 1, 2024 is the first scheduled principle payment.
- **AIDEA term loan** remained the same. The loan is related to the Interior Energy Project and repayment is deferred to 2032.
- **Land contract - GVEA** decreased \$180 thousand due to the scheduled annual payment on the land contract. The land contract is related to the land at the North Pole LNG storage facility.
- **Mt McKinley Bank commercial loan** decreased \$81 thousand due to the scheduled payments on the commercial loan. The commercial loan is related to the office building located at 2525 Phillips Field Road, Fairbanks, AK.
- **Equipment loans payable** decreased \$141 thousand due to the scheduled payments on the loans. One loan matured during the year. The equipment loans are related to liquified natural gas (LNG) transport trailers.

Net position decreased \$3.6 million during the period ended June 30, 2023 as outlined below:

Beginning net position (July 1, 2022)	\$	28,387,892
Reductions -		
Net change resulting from Operating and non-operating activities		<u>(3,602,184)</u>
Ending net position (June 30, 2023)	\$	<u><u>24,785,708</u></u>

Net position at June 30, 2023 was categorized as follows:

Net investment in capital assets	\$	16,670,527
Unrestricted		<u>8,115,181</u>
Net position	\$	<u><u>24,785,708</u></u>

INTERIOR ALASKA NATURAL GAS UTILITY

Management Discussion and Analysis, Continued

Following are IGU's operating revenues and expenses, and net non-operating revenues (expenses) for the period July 1, 2022 to June 30, 2023 with prior year comparison, June 30, 2022:

	June 30, 2023	June 30, 2022	Increase (Decrease)
Operating revenues:			
Residential sales	\$ 3,102,991	1,914,585	1,188,406
Commercial sales	16,802,813	14,409,252	2,393,561
Interruptible sales	5,299,431	4,022,142	1,277,289
Other operating revenues	799,433	600,358	199,075
Total operating revenues	26,004,668	20,946,337	5,058,331
Operating expenses:			
Natural gas purchases	10,032,718	8,596,735	1,435,983
Trucking	3,032,692	2,437,045	595,646
Electricity	1,525,432	1,293,201	232,232
Gas liquefaction expenses	2,759,798	2,481,414	278,384
Distribution operations	372,435	338,511	33,924
Distribution maintenance	189,081	164,404	24,678
Storage and vaporization operations	1,237,489	1,112,130	125,360
Storage and vaporization maintenance	239,935	175,427	64,509
Engineering	161,627	119,143	42,485
Talkeetna maintenance	13,573	11,870	1,703
Customer services	391,962	307,215	84,746
Administrative and general expenses	2,968,098	2,725,618	242,480
Taxes	226,244	220,167	6,077
Interest expense	720,350	739,770	(19,420)
Depreciation	5,078,205	4,975,989	102,216
Amortization	462,351	462,351	-
Total operating expenses	29,411,990	26,160,990	3,251,000
Operating loss	(3,407,322)	(5,214,653)	1,807,331
Non-operating revenues (expenses):			
Gain from disposition of property, plant and equipment	14,089	-	14,089
Interest and dividend income	101,625	8,396	93,229
Other income	(310,576)	15,791	(326,367)
Total non-operating revenues (expenses)	(194,862)	24,187	(219,022)
Change in net position	\$ (3,602,184)	(5,190,466)	1,588,309
Net position – beginning of period	28,387,892	33,578,358	(5,190,466)
Net position – end of period	\$ 24,785,708	28,387,892	(3,602,157)

INTERIOR ALASKA NATURAL GAS UTILITY

Management Discussion and Analysis, Continued

Operating revenues for the period July 1, 2022 to June 30, 2023.

- **Residential sales** include tariff rate approved sales for customers classified as residential. Residential sales increased \$1.2 million from previous year due to addition of new customers and a rate increase of \$0.104 per hundred cubic feet.
- **Commercial sales** include tariff rate approved sales for customers classified as small commercial and large commercial and sales agreements for commercial customers outside of the Utilities service area. Commercial sales increased \$2.4 million from the previous year largely due to addition of new customers and a rate increase of \$0.104 per hundred cubic feet.
- **Interruptible sales** include tariff rate approved sales for customers classified as small commercial interruptible and tariff approved sales agreements for large commercial interruptible. Interruptible sales increased \$1.3 million due to customers choosing to consume gas instead of their alternative fuels (i.e. heating oil or coal) for cost reasons and a rate increase of \$0.10 per hundred cubic feet.
- **Other operating revenue** includes service charge that is a fixed charge at various amounts dependent upon customer classification, application fees for service or transfer of service, penalty charges for late payments and other direct utility services. Other operating revenues increased \$199 thousand largely due to increased number of service charges resulting from additional new customers and gas application fees for new customers.

Operating expenses for the period July 1, 2022 to June 30, 2023.

- **Natural gas purchases** represent the cost of gas consumed by all customers. Natural gas purchases increased \$1.4 million from previous year 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 \$596 thousand due to increased sales from new customers and increased trucking costs.
- **Electricity** represent the cost of electricity used in the liquefaction of natural gas process. Electricity increased \$232 thousand from previous year due to increased sales from new customers and an increase to electric costs.
- **Gas liquefaction expenses** represent the cost to operate and maintain the equipment to liquefy natural gas for transport to Fairbanks, North Pole and other destinations in Alaska (AK). Gas liquefaction expenses increased \$278 thousand for the year largely due to increased costs related to maintenance and unexpected maintenance on LNG trailers.
- **Distribution operations** includes costs related to general operations of the distribution system located in Fairbanks and North Pole, AK. Distribution operations increased \$34 thousand for the year largely due to increased costs resulting from inflation of costs.
- **Distribution maintenance** includes costs related to maintenance operations of the distribution system located in Fairbanks and North Pole, AK. Distribution maintenance increased \$25 thousand for the year largely due to inflation.
- **Storage and vaporization operations** includes costs related to general operations of the storage and vaporization system located in Fairbanks, AK, North Pole, AK and Talkeetna, AK and a storage system located in Houston, AK. Storage and vaporization operations increased \$125 thousand for the year. The increase is related to increased gas usage expense for vaporization of LNG for distribution due to higher sales, increased electricity expense related to the operation of the storage facilities, and increased labor expense for operation of the storage facilities

INTERIOR ALASKA NATURAL GAS UTILITY

Management Discussion and Analysis, Continued

- **Storage and vaporization maintenance** includes costs related to general maintenance of the storage and vaporization system located in Fairbanks, AK, North Pole, AK, and Talkeetna, AK and a storage system located in Houston, AK. Storage and vaporization maintenance increased \$65 thousand for the year. Maintenance activities have increased from prior years at storage site 3 and site 4.
- **Engineering** includes cost for in-house engineering related to operations and maintenance, capital projects and state/federal regulation compliance. Engineering increased \$42 thousand from the previous year due to additions to the engineering staff.
- **Talkeetna maintenance** includes cost for day to day maintenance of the stand alone storage and vaporization system located at the Talkeetna Lodge, vicinity of Talkeetna, Alaska. Maintenance costs increased \$2 thousand for the year. No significant event caused this increase.
- **Customer service** includes cost for servicing of customer accounts, outside sales, meter reading and general customer support. Customer service increased \$85 thousand for the year largely due to increased credit card payment fees due to increased payments online and an additional customer service position.
- **Administrative and general expenses** include costs related to the board of directors, management, administrative staff and general operations such as facilities costs and supplies that are not directly related to other operating departments. Administrative and general expenses increased \$243 thousand for the year largely due to increased cost of labor, legal fees, and employee benefits.
- **Depreciation and amortization** represents the allocation of the cost of property, plant and equipment assets over the useful life of the assets and amortization of the gas plant acquisition adjustment. Depreciation increased \$102 thousand due to new distribution mains and services being placed into service and previous year assets placed into service having accumulated a full year of depreciation.

Fixed charges for the period July 1, 2022 to June 30, 2023.

- **Interest expense** is the cost of financing current equipment and expansion projects. See long term debt footnotes to comparative financial statements.
- **Net non-operating revenues (expenses)** are comprised of interest/dividend income from investments, non-operating other income, and extra-ordinary expense. Net non-operating revenues (expenses) was \$326 thousand lower than the previous year due to recording the notice of probable violations proposed by Pipeline Hazardous Materials Safety Administration as an extra-ordinary expense.

BASIC FINANCIAL STATEMENTS

INTERIOR ALASKA NATURAL GAS UTILITY
COMPARATIVE STATEMENTS OF NET POSITION

June 30, 2023 and 2022

<u>Assets and Deferred Outflows of Resources</u>	<u>2023</u>	<u>2022</u>
Property, plant and equipment:		
Property, plant and equipment in service, at cost	\$ 171,340,053	166,169,990
Less: accumulated provision for depreciation	18,975,271	13,904,816
Net property, plant and equipment in service	<u>152,364,782</u>	<u>152,265,174</u>
Gas plant held for future use, at cost	258,846	258,846
Construction work in progress	7,372,407	8,157,137
Net property, plant and equipment	<u>159,996,035</u>	<u>160,681,157</u>
Current assets:		
Cash	4,642,823	3,870,491
Cash - <i>restricted construction funds</i>	3,224,506	8,941,785
Accounts receivable, net	1,104,109	770,091
Liquefied natural gas inventory	3,684,515	2,893,384
Materials and supplies inventory	1,734,831	1,828,940
Deposits and other current assets	798,125	686,539
Total current assets	<u>15,188,909</u>	<u>18,991,230</u>
Deferred outflows of resources:		
Gas plant acquisition adjustment	6,660,985	7,123,335
Total assets and deferred outflows of resources	<u>\$ 181,845,929</u>	<u>186,795,722</u>
<u>Liabilities and Net Positions</u>		
Current liabilities:		
Current maturities of long-term debt	\$ 401,537	439,673
Accrued wages and burden	186,368	189,185
Accounts payable	1,444,982	1,835,813
Construction payable	32,549	997,279
Other current and accrued liabilities	483,041	188
Total current liabilities	<u>2,548,477</u>	<u>3,462,138</u>
Noncurrent liabilities:		
Long-term debt, less current maturities:		
Revenue bonds payable (Series 2020A), net unamortized bond premium and issuance costs	12,346,414	12,378,712
AIDEA term loan	139,000,000	139,000,000
Land contract - GVEA	1,284,074	1,463,866
Mt McKinley Bank Commercial Loan	1,857,283	1,938,452
Equipment loans payable	23,973	164,662
Total noncurrent liabilities	<u>154,511,744</u>	<u>154,945,692</u>
Net position:		
Net investment in capital assets	16,670,527	22,192,573
Unrestricted	8,115,181	6,195,319
Total net position	<u>24,785,708</u>	<u>28,387,892</u>
Total liabilities and net position	<u>\$ 181,845,929</u>	<u>186,795,722</u>

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

INTERIOR ALASKA NATURAL GAS UTILITY

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET

Years Ended June 30, 2023 and 2022

	2023	2022
Operating revenues:		
Residential sales	\$ 3,102,991	1,914,585
Commercial sales	16,802,813	14,409,252
Interruptible sales	5,299,431	4,022,142
Other operating revenue	799,433	600,358
Total operating revenues	26,004,668	20,946,337
Operating expenses:		
Natural gas purchases	10,032,718	8,596,735
Trucking	3,032,692	2,437,045
Electricity	1,525,432	1,293,201
Gas liquefaction expenses	2,759,798	2,481,414
Distribution operations	372,435	338,511
Distribution maintenance	189,081	164,404
Storage and vaporization operations	1,237,489	1,112,130
Storage and vaporization maintenance	239,935	175,427
Engineering	161,627	119,143
Talkeetna maintenance	13,573	11,870
Customer services	391,962	307,215
Administrative and general expenses	2,968,098	2,725,618
Taxes	226,244	220,167
Interest expense	720,350	739,770
Depreciation	5,078,205	4,975,989
Amortization	462,351	462,351
Total operating expenses	29,411,990	26,160,990
Operating loss	(3,407,322)	(5,214,653)
Nonoperating revenues (expenses):		
Gain from disposition of property, plant and equipment	14,089	-
Interest and dividend income	101,625	8,396
Other income (expenses)	(310,576)	15,791
Nonoperating revenues (expenses) total	(194,862)	24,187
Change in net position	(3,602,184)	(5,190,466)
Net position - beginning of year	28,387,892	33,578,358
Net position - end of period	\$ 24,785,708	28,387,892

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

INTERIOR ALASKA NATURAL GAS UTILITY
COMPARATIVE STATEMENTS OF CASH FLOWS

Years Ended June 30, 2023 and 2022

Increase (Decrease) in Cash and Restricted Cash	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from customers	\$ 25,832,871	20,699,062
Cash paid to suppliers	(21,216,289)	(16,865,888)
Cash paid related to employees	<u>(3,257,441)</u>	<u>(3,215,599)</u>
Net cash provided by operating activities	<u>1,359,141</u>	<u>617,575</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	-	1,512,685
Principal payments on long-term debt	(439,786)	(420,366)
Interest payments	(752,649)	(772,069)
Proceeds from disposal of property, plant and equipment	14,089	-
Construction work in progress	(49,554)	(587,349)
Property, plant and equipment additions	<u>(5,177,813)</u>	<u>(4,545,952)</u>
Net cash provided (used) by capital and related financing activities	<u>(6,405,713)</u>	<u>(4,813,051)</u>
Cash flows from investing activities -		
Interest and dividends received	<u>101,625</u>	<u>8,396</u>
Net cash provided by investing activities	<u>101,625</u>	<u>8,396</u>
Net increase (decrease) in cash and restricted cash	(4,944,947)	(4,187,080)
Cash and restricted cash at beginning of year	<u>12,812,276</u>	<u>16,999,356</u>
Cash and restricted cash at end of year	<u>\$ 7,867,329</u>	<u>12,812,276</u>
Included in cash and restricted cash:		
Cash	\$ 4,642,823	3,870,491
Cash - restricted construction funds	<u>3,224,506</u>	<u>8,941,785</u>
	<u>\$ 7,867,329</u>	<u>12,812,276</u>

(continued)

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

	2023	2022
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	\$ (3,407,322)	(5,214,652)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization	5,540,556	5,438,340
Interest expense	720,350	739,770
Other income	(310,576)	15,791
(Increase) decrease in assets		
Accounts receivable, net	(334,017)	(260,351)
Liquefied natural gas inventory	(791,132)	(158,055)
Materials and supplies inventory	(36,337)	(746,041)
Deposits and other current assets	(111,586)	145,935
Increase (decrease) in liabilities		
Accrued wages and burden	472,383	(114,266)
Accounts payable	(390,831)	796,779
Other current and accrued liabilities	7,653	(25,674)
Total adjustments	4,766,463	5,832,228
Net cash provided by (used in) operating activities	\$ 1,359,141	617,576

Noncash Investing and Financing Activities

During the year ended June 30, 2023 IGU reclassified meters, distribution pipe, and pipe fittings installed from materials and supplies inventory to the proper asset account in the amount of \$780,712.

For the years ended June 30, 2023 and 2022, Construction payable included costs capitalized to construction work in process totaling \$32,549 and \$997,279, respectively.

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

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

June 30, 2023 and 2022

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

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

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

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

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 two items that qualifies for reporting in this category, which is the deferred amount representing the acquisition adjustments reported in the statement of net position. This deferred outflow results from the difference between the cost to purchase the ownership interest in Pentex and the net book value of the underlying assets of the company at the purchase date. This amount is deferred and amortized over the life of the associated assets purchased.

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

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, 2023, there were no environmental issues meeting both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability.

Operating Revenues and Expenses - IGU considers all revenues and expenses except investment income, gains and losses from dispositions of property, plant and equipment and materials and supplies inventory, 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.

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

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

Subsequent Events - The company has evaluated subsequent events through September 12, 2023, the date on which the financial statement was available to be issued.

III. PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment activities were as follows for the fiscal year ended June 30, 2023:

	Balance at July 1, 2022	Additions	Deletions	Balance at June 30, 2023
Nondepreciable components of property, plant and equipment:				
Land	\$ 2,897,017	-	-	2,897,017
Intangible Plant – CPCN	729,676	-	-	729,676
Gas plant held for future use	258,846	-	-	258,846
Construction work in progress	8,157,137	3,397,714	(4,182,444)	7,372,407
Total nondepreciable components of property, plant and equipment	12,042,676	3,397,714	(4,182,444)	11,257,946
Depreciable components of property, plant and equipment:				
Distribution, storage and vaporization	146,044,271	4,990,721	-	151,034,992
LNG production equipment	8,064,939	29,250	-	8,094,189
General plant:				
Structures and improvements	5,620,836	13,031	-	5,633,867
Transportation power-operated equipment	2,645,199	125,220	-	2,770,419
Furniture and office equipment	168,052	11,841	-	179,893
Total depreciable components of property, plant and equipment	162,543,297	5,170,063	-	167,713,360
Less accumulated provision for depreciation:				
Distribution, storage and vaporization	(10,862,253)	(4,116,129)	-	(14,978,382)
LNG production equipment	(2,059,886)	(610,076)	-	(2,669,962)
General plant:				
Structures and improvements	(533,412)	(193,064)	-	(726,476)
Transportation and power-operated	(319,502)	(121,770)	7,750	(433,522)
Furniture and office equipment	(129,763)	(37,166)	-	(166,929)
Total accumulated provision for depreciation	(13,904,816)	(5,078,205)	7,750	(18,975,271)
Total depreciable components of property, plant and equipment	148,638,481	91,858	7,750	148,738,089
Net property, plant and equipment	\$ 160,681,157	3,489,572	(4,174,694)	159,996,035

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

Depreciation expense totaled \$5,078,205 and \$4,975,989 for property, plant and equipment for the fiscal years ended June 30, 2023 and 2022, respectively.

IV. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources at June 30, 2023 and 2022 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
2024	\$ 462,351
2025	462,351
2026	462,351
2027-2031	2,311,753
2032-2036	2,222,923
2037-2041	696,768
2042-2046	14,909
2047-2051	14,909
2052-2056	12,640
	\$ 6,660,985

Amortization expense for the year ended June 30, 2023 was \$462,351.

V. ACCOUNTS RECEIVABLE

The accounts receivable balances as of June 30, 2023 and 2022, were as follows:

	2023	2022
Trade	\$ 1,179,109	845,091
Less: allowance for doubtful accounts	75,000	75,000
	\$ 1,104,109	770,091

At June 30, 2023 and 2022, all natural gas sales were billed.

VI. INVENTORIES

Inventories consisted of the following on June 30, 2023 and 2022:

	2023	2022
Liquefied natural gas	\$ 3,684,515	2,893,384
Materials and supplies	1,734,831	1,828,940
Total inventories	\$ 5,419,346	4,722,324

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

VII. LONG-TERM DEBT

Long-term debt consisted of the following:

	Balance at July 1, 2022	Additions	Deletions	Balance at June 30, 2023	Amounts due within one year
\$11,790,000 Revenue bonds					
Series 2020A 5.0 to 5.25 percent	\$ 11,790,000	-	-	11,790,000	215,000
AIDEA 0.25 percent term loan payable	139,000,000	-	-	139,000,000	-
Golden Valley Electric Association 5.0 percent promissory note	1,635,135	-	(171,381)	1,463,754	179,792
Mt. McKinley Bank 3.17 percent note payable	2,017,513	-	(79,062)	1,938,451	81,604
Wells Fargo Equipment Finance, Inc. 4.15 percent note payable	55,330	-	(55,330)	-	-
Wells Fargo Equipment Finance, Inc. 4.48 percent note payable	298,675	-	(134,013)	164,662	140,142
	<u>\$ 154,796,653</u>	<u>-</u>	<u>(439,786)</u>	<u>154,356,867</u>	<u>616,537</u>
Unamortized Bond issuance costs	(678,623)			(641,392)	
Unamortized Bond premium	1,267,335			1,197,806	
	<u>\$ 155,385,365</u>			<u>\$ 154,913,281</u>	

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

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

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

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

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

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

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

June 30:	Principal	Interest	Total
2024	616,537	734,316	1,350,853
2025	521,982	707,588	1,229,570
2026	520,158	684,056	1,204,214
2027	547,865	659,598	1,207,464
2028	571,158	633,805	1,204,964
2029-2068	151,579,167	14,613,628	166,192,795
	<u>\$ 154,356,867</u>	<u>18,032,991</u>	<u>172,389,858</u>

VIII. NET POSITION

Net position consisted of the following at June 30:

	2023	2022
Net investment in capital assets:		
Total capital assets	\$ 159,996,035	160,681,157
Gas plant acquisition adjustment	6,660,985	7,123,335
Materials and supply inventory	1,734,831	1,828,940
Restricted cash (AIDEA & bond proceeds remaining)	3,224,506	8,941,785
AIDEA term loan	(139,000,000)	(139,000,000)
Revenue bonds payable	(11,790,000)	(11,790,000)
Unamortized bond premiums	(1,197,806)	(1,267,335)
Unamortized bond issuance cost	641,392	678,623
Land contract - GVEA	(1,463,866)	(1,635,248)
Mt. McKinley commercial loan	(1,938,886)	(2,017,947)
Equipment notes payable	(164,115)	(353,458)
Construction payables	(32,549)	(997,279)
Total net investment in capital investment	<u>16,670,527</u>	<u>22,192,573</u>
Unrestricted	<u>8,115,181</u>	<u>6,195,319</u>
Net Position	<u>\$ 24,785,708</u>	<u>28,387,892</u>

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

IX. NATURAL GAS PURCHASE AND TRANSPORTATION CONTRACTS

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

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

In June 2019 IGU entered into an "LNG Transportation Agreement" with Big State Logistics, Incorporated (Big State) 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 unless terminated by either party. Big State was acquired by STR, Inc 2021 and the contract was reassigned to STR. This Agreement was terminated effect June 30, 2022 and no automatic renewals will commence.

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

X. RETIREMENT PLAN

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

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

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, 2023 and 2022 IGU's matching contributions to all plans totaled \$80,429 and \$105,435, respectively.

XI. LABOR CONTRACTS

The International Brotherhood of Electrical Workers (IBEW) Local 1547 represents all full-time Fairbanks distribution and LNG storage operators employed by IGU. The collective-bargaining contract was ratified by its members and executed by management 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. The contract expired December 31, 2022. IGU and IEBW entered into negotiation for a new contract in the fall of 2022 and at the end of the fiscal year were continuing to negotiate a new contract. The expired contract remains in effect. For the years ended June 30, 2023 and 2022, annual contributions of \$12,377 and \$13,694, respectively, were made to the plan.

XII. CONCENTRATIONS AND CREDIT RISK

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

Custodial Credit Risk Related to Deposits - For deposits, Custodial Credit Risk is the risk that, in the event of the failure of the banking institution, IGU will not be able to recover the value of its deposits that are in the possession of an outside party. IGU maintains its cash balances at three financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. IGU entered into Securities Custodial Agreements with Mt. McKinley Bank and Wells Fargo Bank to collateralize up to \$1,000,000 and \$5,769,102, respectively, of cash balances in excess of the FDIC limits. IGU has not experienced any loss in such accounts. Of bank balances totaling \$8,131,126, the uninsured and uncollateralized balance was \$1,577,931 at June 30, 2023. Of bank balances totaling \$12,843,425, the uninsured and uncollateralized balance was \$6,450,364 at June 30, 2022. IGU believes it is not exposed to any significant credit risk on cash and cash equivalents.

INTERIOR ALASKA NATURAL GAS UTILITY

Notes to Financial Statements

XIII. RECENT PRONOUNCEMENTS

GASB Statement No. 96, Subscription-Based Information Technology Arrangements (GASB 96) was issued by the GASB in May 2020. The objective of GASB 96 is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. This Statement provides an exception for short-term SBITAs. Short-term SBITA's have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. GASB 96 is effective for the fiscal year ending June 30, 2022. The company has implemented GASB 96.

XIV. SUBSEQUENT PRONOUNCEMENTS

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

- GASB 99 *Omnibus 2022*. Multiple effective dates.
- GASB 100 *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. Effective for fiscal years beginning after June 15, 2023. Multiple effective dates.
- GASB 101 *Compensated Absences*. Effective for fiscal years beginning after December 15, 2023.

GASB Statement No. 100 will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

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

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

XV. SUBSEQUENT EVENTS

On July 11, 2023, IGU and International Brotherhood of Electrical Workers (IBEW) ratified a new collective-bargaining agreement. The agreement is effective as of July 24, 2023 and expires on December 31, 2025.

COMPLIANCE SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the Interior Alaska Natural Gas Utility (IGU), a discretely presented component unit of the Fairbanks North Star Borough, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Interior Alaska Natural Gas Utility's basic financial statements, and have issued our report thereon dated September 12, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Interior Alaska Natural Gas Utility's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Interior Alaska Natural Gas Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Interior Alaska Natural Gas Utility's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Interior Alaska Natural Gas Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Anchorage, Alaska
September 12, 2023

INTERIOR ALASKA NATURAL GAS UTILITY

Schedule of Findings

June 30, 2023

Section I – Summary of Auditor’s Results

Financial Statements

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

Unmodified

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

Yes No

Internal control over financial reporting:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified?

Yes None noted

Noncompliance material to financial statements noted?

Yes No

Section II – Financial Statement Findings

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