

**INTERIOR ALASKA NATURAL GAS UTILITY**

**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2016 AND 2015**

**AND**

**REPORT OF INDEPENDENT CERTIFIED  
PUBLIC ACCOUNTANTS**

INTERIOR ALASKA NATURAL GAS UTILITY  
FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2016 AND 2015  
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Report of Independent Certified Public Accountants

The Board of Directors  
Interior Alaska Natural Gas Utility

**Report on the Financial Statements**

We have audited the accompanying statement of net position of the Interior Alaska Natural Gas Utility (IGU), a component unit of the Fairbanks North Star Borough, as of and for the years ended June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise IGU's basic 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 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 net position of Interior Alaska Natural Gas Utility as of June 30, 2016 and 2015, and its revenues, expenses and changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, 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. Our opinion on the basic financial statements is not affected by this missing information.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise IGU's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2016, 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 other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IGU's internal control over financial reporting and compliance.

Cook + Haugeberg LLC

October 5, 2016

## FINANCIAL STATEMENTS

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INTERIOR ALASKA NATURAL GAS UTILITY

STATEMENT OF NET POSITION

YEARS ENDED JUNE 30, 2016 AND 2015

| ASSETS  |    |            |               |
|---|----|------------|---------------|
|   |    | 2016       | 2015          |
| Utility plant (note 3)  |    |            |               |
| Gas plant in service, net of depreciation   | \$ | 16,275     | \$ 17,425     |
| Capitalized construction work in progress<br>(supplemental schedule I)                |    | 26,204,871 | 11,372,503    |
| Intangible plant  |    |            |               |
| Cert. of public convenience and necessity   |    | 729,676    | 729,676       |
| Total utility plant   |    | 26,950,822 | 12,119,604    |
| Current assets  |    |            |               |
| Cash  |    | 4,534,715  | 6,721,738     |
| Contract receivables  |    | 52,369     | 24,632        |
| Prepayments   |    | 16,850     | 4,130         |
| Total current assets  |    | 4,603,934  | 6,750,500     |
| Total assets  | \$ | 31,554,756 | \$ 18,870,104 |
| LIABILITIES AND NET POSITION  |    |            |               |
| Current liabilities   |    |            |               |
| Accounts payable  | \$ | 302,643    | \$ 4,823,887  |
| Alaska Industrial Development and Export<br>Authority (AIDEA) line of credit (note 4) |    | 29,689,476 | 12,487,219    |
| Fairbanks North Star Borough (FNSB)<br>line of credit (note 4)                        |    | 500,000    | 500,000       |
| Total current liabilities   |    | 30,492,119 | 17,811,106    |
| Net position  |    |            |               |
| Net investment in capital assets  |    | 729,676    | 729,676       |
| Unrestricted  |    | 332,961    | 329,322       |
| Total net position  |    | 1,062,637  | 1,058,998     |
| Total liabilities and net position  | \$ | 31,554,756 | \$ 18,870,104 |

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

# INTERIOR ALASKA NATURAL GAS UTILITY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2016 AND 2015

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Operating revenues                                  |                     |                     |
| FNSB contract revenue                               | \$ 130,574          | \$ 111,061          |
| Operating expenses                                  |                     |                     |
| Contractual services                                |                     |                     |
| Advertising   | 1,563               | 4,111               |
| Legal fees  | 721                 | 558                 |
| Office expenses                                     | 1,253               | 11,585              |
| Travel expenses                                     | -                   | 2,583               |
| Rent  | 49,560              | 35,172              |
| Insurance   | 1,478               | 3,123               |
| Financial services                                  | 36,810              | 22,599              |
| Communications                                      | 3,865               | 8,144               |
| Membership fees                                     | 2,517               | 1,113               |
| Total contractual services                          | <u>97,767</u>       | <u>88,988</u>       |
| Materials expenses                                  |                     |                     |
| Office supplies                                     | 5,152               | 899                 |
| Information technology                              | 1,407               | 1,835               |
| Depreciation expense                                | 3,224               | 2,099               |
| Interest expense                                    | 1,068               | 1,250               |
| Total materials expenses                            | <u>10,851</u>       | <u>6,083</u>        |
| Payroll expenses                                    |                     |                     |
| Salary  | 19,842              | -                   |
| Employee benefits                                   | 992                 | -                   |
| Payroll tax expense                                 | 1,904               | -                   |
| Total payroll expenses                              | <u>22,738</u>       | <u>-</u>            |
| Total operating expenses (supplemental schedule II) | <u>131,356</u>      | <u>95,071</u>       |
| Total operating income (loss)                       | (782)               | 15,990              |
| Nonoperating revenues                               |                     |                     |
| Interest income                                     | 4,421               | 1,893               |
| Increase in net position                            | 3,639               | 17,883              |
| Total net position                                  |                     |                     |
| Beginning of year                                   | <u>1,058,998</u>    | <u>1,041,115</u>    |
| End of year   | <u>\$ 1,062,637</u> | <u>\$ 1,058,998</u> |

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



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INTERIOR ALASKA NATURAL GAS UTILITY

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| <b>Cash flows from operating activities</b>         |                     |                     |
| Cash received from FNSB                             | \$ 102,837          | \$ 46,649           |
| Cash paid to suppliers and consultants              | (115,415)           | (97,055)            |
| Cash paid to employee                               | (19,271)            | -                   |
| Interest received                                   | 4,421               | 1,893               |
| Interest paid                                       | (1,592)             | -                   |
|   | <u>(29,020)</u>     | <u>(48,513)</u>     |
| <b>Net cash used for operating activities</b>       |                     |                     |
| <b>Cash flows from investing activities</b>         |                     |                     |
| Utility plant in service                            | (2,074)             | (19,524)            |
| Capitalized engineering and feasibility charges     | (19,358,186)        | (6,522,400)         |
|   | <u>(19,360,260)</u> | <u>(6,541,924)</u>  |
| <b>Net cash used for financing activities</b>       |                     |                     |
| <b>Cash flows from financing activities</b>         |                     |                     |
| Advances on lines of credit                         | 17,202,257          | 12,957,219          |
|   | <u>17,202,257</u>   | <u>12,957,219</u>   |
| <b>Net cash provided by financing activities</b>    |                     |                     |
|   | <u>(2,187,023)</u>  | <u>6,366,782</u>    |
| <b>Increase (decrease) in cash</b>                  |                     |                     |
| <b>Cash</b>   |                     |                     |
| Beginning of year                                   | 6,721,738           | 354,956             |
|   | <u>6,721,738</u>    | <u>354,956</u>      |
| End of year   | <u>\$ 4,534,715</u> | <u>\$ 6,721,738</u> |
| <b>Noncash activities</b>                           |                     |                     |
| AIDEA line of credit fees and charges               | \$ -                | \$ 15,000           |
| Line of credit accrued interest in accounts payable | \$ 726              | \$ 1,250            |
| Capitalized costs in accounts payable               | <u>\$ 293,281</u>   | <u>\$ 4,820,103</u> |

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

INTERIOR ALASKA NATURAL GAS UTILITY

STATEMENT OF CASH FLOWS (continued)

YEARS ENDED JUNE 30, 2016 AND 2015

|   | <u>2016</u>        | <u>2015</u>        |
|---|--------------------|--------------------|
| <b>Reconciliation of increase in net position to<br/>net cash used for operating activities</b> |                    |                    |
| Increase in net position  | \$ 3,639           | \$ 17,883          |
| Adjustments   |                    |                    |
| Depreciation  | 3,224              | 2,099              |
| (Increase) decrease in assets   |                    |                    |
| Contract receivables  | (27,737)           | (24,632)           |
| Prepayments - operating   | (12,720)           | (4,130)            |
| Increase (decrease) in liabilities  |                    |                    |
| Accounts payable - operating  | 4,574              | 47                 |
| Unearned FNSB contract revenue  | <u>-</u>           | <u>(39,780)</u>    |
| Total adjustments   | <u>(32,659)</u>    | <u>(66,396)</u>    |
| Net cash used for operating activities  | <u>\$ (29,020)</u> | <u>\$ (48,513)</u> |

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

## INTERIOR ALASKA NATURAL GAS UTILITY

### NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

#### NOTE 1 - ORGANIZATION

**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. Initial appointments were for 2, 3 and 4 year terms. Following the initial terms all seats have 3-year terms and four seats on the board are elected while three seats on the board remain appointed, one by each of the three municipalities. The organization anticipates having a small management team and subcontracting the operations of the gas utility.

In 2012 IGU received a contract from the Borough to build the framework from which the utility will operate, 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 has contracted with 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 the 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. The IGU has a goal to deliver gas to the customers' meter for approximately \$15 per thousand cubic feet (mcf) by fall of 2017.

IGU has secured sources of funding for operations and preconstruction activities from the Borough and AIDEA. In May 2014, IGU secured a line of credit of up to \$7.5 million from the Borough to serve as bridge loan funding for the project. AIDEA has authorized a \$37.78 million line of credit from the Sustainable Energy Transmission and Supply (SETS) Loans, available through Senate Bill (SB) 23.



INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

(Continued)

**NOTE 1 - ORGANIZATION** (continued)

These financial statements include all activities of IGU, a component unit and an integral part of the reporting entity of the Fairbanks North Star Borough, the primary government. Complete financial statements of the Borough can be obtained from the Borough Clerk's Office at 809 Pioneer Road, PO Box 71267, Fairbanks, Alaska 99707-1267; phone number 907-459-1000 or on the web at [co.fairbanks.ak.us/fs/Pages/Comprehensive-Annual-Financial-Reports.aspx](http://co.fairbanks.ak.us/fs/Pages/Comprehensive-Annual-Financial-Reports.aspx).

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Presentation and basis of accounting** - IGU applies all applicable provisions of the Governmental Accounting Standards Board (GASB) which has authority for setting accounting standards for governmental entities. The accounting policies of IGU conform to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

The financial statements of IGU are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when they are earned and become measureable and expenses are recognized in the period incurred, if measurable. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with IGU's principal ongoing operations.

**Regulated operations** - IGU meets the criteria, and accordingly, follows the accounting and reporting requirements applicable to regulated operations. IGU is subject to the regulatory authority of the Regulatory Commission of Alaska (RCA) and, as a result, revenues intended to recover certain costs are provided either before or after the costs are incurred, resulting in regulatory assets or liabilities.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

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



INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Cash equivalents** - For purposes of reporting cash flows, IGU considers all cash accounts which are not subject to withdrawal restrictions or penalties to be cash or cash equivalents.

**Utility plant**

**Gas** - Capital assets for natural gas distribution, which are included in construction work in progress, are stated at cost and include items such as contracted services, direct materials, indirect overhead charges and interest during construction. As IGU is in the development stage and has not commenced planned principal operations, the assets have not been placed in service, and depreciation has not been recorded.

**Furniture and fixtures** - Office equipment is included in gas plant in services and is stated at cost. Depreciation is computed over the estimated useful lives of the assets. IGU capitalizes assets valued at more than \$750 that have an expected life in excess of one year.

**Contract receivables** - Contract receivables are recorded when invoices are issued and are presented in the balance sheet, net of allowance for doubtful accounts, if any.

**Net position** - The implementation of GASB Statement No. 63 requires IGU to categorize its net position. IGU's net position is categorized as net investments in capital assets and unrestricted.

**Income taxes** - IGU is wholly owned by the Borough, is reported in the government-wide financial statements as a discretely presented component unit, and does not pay Federal or Alaska income tax.

**Subsequent events** - In preparing these financials statements, the company evaluated events and transactions for potential recognition or disclosure through October 5, 2016, the date the financial statements were available to be issued.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

(Continued)

**NOTE 3 - UTILITY PLANT**

**Construction Work in Progress**

In 2013 and 2014 IGU provided contract services to the Borough for preliminary survey and investigation charges. IGU has capitalized work performed that was not included in the Borough contract. In 2015 and 2016 the preliminary survey and investigation charges were transferred into capitalized construction work in progress along with additional design and construction related charges that were incurred for phase 1 design and construction and phase 2 design. (See supplemental schedule I.)

**Certificate of Public Convenience and Necessity**

Costs incurred related to obtaining a Certificate of Public Convenience and Necessity (CPCN) permit from the Regulatory Commission of Alaska have been capitalized by IGU at cost of \$729,676.

**Long Term Considerations**

IGU has a commitment from AIDEA to provide financing of the distribution system. Based on the terms of the line of credit between AIDEA and IGU, the term and conditions of the long-term note are to be designed to allow IGU to reach or approach the target price of the Interior Energy Project - nominally, \$15 per mcf. If those terms are not reached, payment on the line of credit is not required, and AIDEA would be provided the work products of IGU for design, permitting, right-of-way and construction.

A summary of capital assets at June 30, 2016 follows:

|                               | July 1,<br>2015      | Additions            | Deductions  | June 30,<br>2016     |
|-------------------------------|----------------------|----------------------|-------------|----------------------|
| Gas plant in service          | \$ 19,524            | \$ 2,074             | \$ -        | \$ 21,598            |
| Less accumulated depreciation | 2,099                | 3,224                | -           | 5,323                |
| Net gas plant in service      | 17,425               | (1,150)              | -           | 16,275               |
| Construction work in progress | 11,372,503           | 14,832,368           | -           | 26,204,871           |
| Intangible plant              | 729,676              | -                    | -           | 729,676              |
|                               | <u>\$ 12,119,604</u> | <u>\$ 14,831,218</u> | <u>\$ -</u> | <u>\$ 26,950,822</u> |

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015  
(Continued)

**NOTE 3 - UTILITY PLANT** (continued)

A summary of capital assets at June 30, 2015 follows:

|                               | July 1,<br>2014     | Additions            | Deductions  | June 30,<br>2015     |
|-------------------------------|---------------------|----------------------|-------------|----------------------|
| Gas plant in service          | \$ -                | \$ 19,524            | \$ -        | \$ 19,524            |
| Less accumulated depreciation | -                   | 2,099                | -           | 2,099                |
| Net gas plant in service      | -                   | 17,425               | -           | 17,425               |
| Construction work in progress | 301,865             | 11,070,638           | -           | 11,372,503           |
| Intangible plant              | 729,676             | -                    | -           | 729,676              |
|                               | <u>\$ 1,031,541</u> | <u>\$ 11,088,063</u> | <u>\$ -</u> | <u>\$ 12,119,604</u> |

**NOTE 4 - LINES OF CREDIT**

IGU has a line of credit with AIDEA dated June 30, 2014, and amended as of April 2, 2015. The line of credit is to finance costs of construction of IGU's distribution system up to \$37,780,000. The per annum interest rate for advances under the line of credit is zero percent (0%) until December 31, 2017. Amounts drawn under this line of credit are anticipated to be converted into a long-term note prior to December 31, 2017. Once converted, the per annum interest rate for the long-term note is one percent (1%). Security is the capitalized construction work in progress. In the event the project is deemed uneconomical, the capitalized construction work in progress will revert to AIDEA and the loan will be forgiven. The balances outstanding at June 30, 2016 and 2015 were \$29,689,476 and \$12,487,219, respectively.

The IGU received a \$7,500,000 line of credit with the Borough dated May 15, 2014, and expiring June 30, 2021, with final payment on outstanding amounts due June 30, 2024. The per annum interest rates for advances under the line of credit is equal to the Federal Funds Rate at the time of the advance, adjusted annually to Federal Funds Rate as of January 1. The balances outstanding at June 30, 2016 and 2015 were \$500,000 and \$500,000, respectively.



INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

(Continued)

**NOTE 5 - CREDIT RISK**

IGU maintains its cash balances at one financial institution. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. IGU has entered into a Securities Custodial Agreement with the financial institution to collateralize up to \$4,000,000 of cash balances in excess of the FDIC limits. IGU has not experienced any loss in such accounts. As of June 30, 2016, the uninsured and uncollateralized balance was \$287,715. IGU believes it is not exposed to any significant credit risk on cash and cash equivalents.

**NOTE 6 - RELATED PARTY TRANSACTIONS**

IGU is wholly owned by the Fairbanks North Star Borough. IGU has received a services contract from the Borough. A summary of the contract amounts follows:

|   | Phase I           | Phase II     |            |            |              |
|---|-------------------|--------------|------------|------------|--------------|
|   | * Task<br>1 and 2 | Task 3       | Task 4     | Task 5     | Total        |
| Contract budget                           | \$ 319,000        | \$ 1,101,635 | \$ 735,200 | \$ 288,500 | \$ 2,444,335 |
| Contract costs in<br>fiscal year 2013     | (184,533)         | (314)        | (5,638)    | -          | (190,485)    |
| Contract costs in<br>fiscal year 2014     | (23,776)          | (264,906)    | (724,038)  | (102,188)  | (1,114,908)  |
| Contract costs in<br>fiscal year 2015     | -                 | (111,061)    | -          | -          | (111,061)    |
| Contract costs in<br>fiscal year 2016     | -                 | (130,574)    | -          | -          | (130,574)    |
| Total contract<br>costs incurred          | (208,309)         | (506,855)    | (729,676)  | (102,188)  | (1,547,028)  |
| Allocated to future<br>operating expenses | (110,691)         | -            | (5,524)    | (186,312)  | (302,527)    |
|   | (319,000)         | (506,855)    | (735,200)  | (288,500)  | (1,849,555)  |
| Remaining on contract<br>at June 30, 2016 | \$ -              | \$ 594,780   | \$ -       | \$ -       | \$ 594,780   |

\* Tasks 1 and 2 are part of Phase 1 of the contract with the Borough. The contract does not include an allocation of contract amounts between Task 1 and Task 2.

# INTERIOR ALASKA NATURAL GAS UTILITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

(Continued)

### NOTE 7 - COMMITMENTS

IGU has retained the following companies to provide engineering and related utility build out planning under services contracts. Contract phases, amounts and period completed are as follows:

|  | Remaining<br>Commitments | 2016                 | 2015                 |
|--|--------------------------|----------------------|----------------------|
| MWH Americas, Inc.,<br>Task orders authorized                        | \$ 2,311,768             | \$ 1,343,578         | \$ 1,629,419         |
| PDC, Inc. Engineers,<br>Phase 1 design                               | 198,828                  | 908,931              | 2,194,711            |
| Michael Baker, Jr. Corporation,<br>Phase 1 & 2 design                | -                        | 138,158              | 833,513              |
| Norstar Pipeline Company<br>Gas hydraulic modeling & quality control | 22,742                   | 154,808              | 119,450              |
| Ferguson Enterprises, Inc.<br>Supply of phase 1 gas main pipe        | -                        | 144,776              | 1,227,258            |
| Gage Tree Service, LLC<br>Phase 1 clearing - zones A&C               | -                        | 54,071               | 468,735              |
| Carlos Tree Service, LLC<br>Phase 1 clearing - zone B                | -                        | 52,242               | 455,622              |
| Central Environmental, Inc.<br>Construction - phase 1 zone A         | 144,939                  | 5,023,824            | 1,797,009            |
| Utility Technologies, Inc.<br>Construction - phase 1 zone B          | 28,499                   | 3,797,384            | 1,338,174            |
| Robinson Brothers Construction<br>Construction - phase 1 zone C      | 70,303                   | 3,083,525            | 689,621              |
| Cook & Haugeberg, LLC<br>Financial statement audit                   | 15,637                   | 21,906               | 15,831               |
| RJG, A Professional Corporation<br>Bookkeeping services              | 64,470                   | 46,098               | 41,635               |
|  | <u>\$ 2,857,186</u>      | <u>\$ 14,769,301</u> | <u>\$ 10,810,978</u> |



INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

(Continued)

**NOTE 8 - OPERATING LEASES**

IGU leases an office facility in Fairbanks, Alaska for a monthly rent of \$4,130. The office facility rental lease, which commenced on October 15, 2014, expired September 30, 2016. The company will continue to lease the office facility on a month-to-month basis at the same monthly rate.

IGU leases land in North Pole, Alaska for pipe inventory storage from Interior Investment Group. The lease required regular monthly payments of \$1,750 and expired on March 10, 2016. Effective October 15, 2015 IGU vacated part of the land and modified the lease terms to require monthly payments of \$200. The lease was extended to March 10, 2017.

**NOTE 9 - PENSION PLAN**

IGU hired a general manager in April 2016 and as part of the employment agreement established a Simplified Employee Pension Individual Retirement Arrangement. The company contributes 5% of the general manager's salary to the plan and contributions are 100% vested when accrued. Employer contributions are paid with each payroll. Employer contributions for the year ended June 30, 2016 were \$992.

**NOTE 10 - CONTINGENCIES**

The company's build out program and financing are contingent on financing from AIDEA and a source of natural gas available to the Fairbanks area at a reasonable cost.

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## SUPPLEMENTARY INFORMATION

INTERIOR ALASKA NATURAL GAS UTILITY  
SCHEDULE I - CAPITALIZED CONSTRUCTION WORK IN PROGRESS  
YEARS ENDED JUNE 30, 2016 AND 2015

|                              | <u>2016</u>          | <u>2015</u>          |
|------------------------------|----------------------|----------------------|
| Phase 1                      |                      |                      |
| Engineering, ROW, permitting | \$ 1,888,692         | \$ 1,750,535         |
| Construction management      | 1,895,320            | 831,581              |
| Program management           | 3,259,863            | 1,916,284            |
| Contingency                  | 255,591              | 134,955              |
| Materials                    | 1,407,341            | 1,252,129            |
| Construction                 | <u>16,760,206</u>    | <u>4,749,161</u>     |
| Subtotal Phase 1             | 25,467,013           | 10,634,645           |
| Phase 2                      |                      |                      |
| Engineering, ROW, permitting | <u>737,858</u>       | <u>737,858</u>       |
|                              | <u>\$ 26,204,871</u> | <u>\$ 11,372,503</u> |

See accompanying notes to the financial statements and  
report of independent certified public accountants.

INTERIOR ALASKA NATURAL GAS UTILITY  
SCHEDULE II - OPERATING EXPENSES (BY TASK)  
YEARS ENDED JUNE 30, 2016 AND 2015

|  | <u>2016</u>              | <u>2015</u>             |
|--|--------------------------|-------------------------|
| Expenses paid by private donations           |                          |                         |
| Travel expenses                              | <u>\$ -</u>              | <u>\$ 1,781</u>         |
| Subtotal expenses paid by private donations  | <u>-</u>                 | <u>1,781</u>            |
| Subcontractor and operating expenses by task |                          |                         |
| Task 3 utility support                       | <u>131,356</u>           | <u>93,290</u>           |
| Subtotal subcontractor expenses by task      | <u>131,356</u>           | <u>93,290</u>           |
| Total operating expenses                     | <u><u>\$ 131,356</u></u> | <u><u>\$ 95,071</u></u> |

Tasks 1, 2, 4 and 5 are now complete. See note 6 for further information.

See accompanying notes to the financial statements and  
report of independent certified public accountants.



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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

The Board of Directors  
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 statement of net position of the Interior Alaska Natural Gas Utility (IGU), a component unit of the Fairbanks North Star Borough, and the related statements of revenues, expenses and changes in net position, and cash flows as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 5, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered IGU's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of IGU's internal control. Accordingly, we do not express an opinion on the effectiveness of IGU's internal control.

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

Cook & Haugeberg LLC

Certified Public Accountants

Fairbanks, Alaska  
October 5, 2016