



**Cook & Haugeberg** <sup>LLC</sup>  
CERTIFIED PUBLIC ACCOUNTANTS

# **INTERIOR ALASKA NATURAL GAS UTILITY**

**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2017 AND 2016**

INTERIOR ALASKA NATURAL GAS UTILITY  
FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION  
Years Ended June 30, 2017 and 2016

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# Cook & Haugeberg LLC

## CERTIFIED PUBLIC ACCOUNTANTS

### 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, 2017 and 2016, 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 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.

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### ***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, 2017 and 2016, 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.

### ***Emphasis of Matter***

As discussed in Note 11 to the financial statements, the June 30, 2016 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

### ***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 17, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of IGU's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IGU's internal control over financial reporting and compliance.

Cook + Haugeberg LLC

October 17, 2017

## FINANCIAL STATEMENTS

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INTERIOR ALASKA NATURAL GAS UTILITY

STATEMENT OF NET POSITION

YEARS ENDED JUNE 30, 2017 AND 2016

ASSETS

	2017	Restated 2016
Utility plant (note 3)		
Gas plant in service, net of depreciation	\$ 12,670	\$ 16,275
Capitalized construction work in progress (supplemental schedule I)	27,580,345	26,135,171
Intangible plant		
Cert. of public convenience and necessity	729,676	729,676
Total utility plant	28,322,691	26,881,122
Current assets		
Cash	2,470,085	4,534,715
Contract receivables	150,782	52,369
Other receivables	337,625	-
Prepayments	16,898	16,850
Total current assets	2,975,390	4,603,934
Total assets	\$ 31,298,081	\$ 31,485,056

LIABILITIES AND NET POSITION

Current liabilities		
Accounts payable	\$ 266,897	\$ 302,643
Alaska Industrial Development and Export Authority (AIDEA) line of credit (note 4)	29,689,476	29,689,476
Fairbanks North Star Borough (FNSB) line of credit (note 4)	500,000	500,000
Due to Fairbanks North Star Borough	44,763	-
Total current liabilities	30,501,136	30,492,119
Net position		
Net investment in capital assets	729,676	729,676
Unrestricted	67,269	263,261
Total net position	796,945	992,937
Total liabilities and net position	\$ 31,298,081	\$ 31,485,056

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, 2017 AND 2016

	2017	Restated 2016
Operating revenues		
FNSB contract revenue	\$ 421,803	\$ 130,574
AIDEA Interior Energy Project reimbursement funds	337,625	-
Total operating revenues	<u>759,428</u>	<u>130,574</u>
Operating expenses		
Contractual services		
Advertising	2,809	1,563
Contract services	553,096	69,700
Legal fees	163,786	721
Office expenses	750	1,253
Travel expenses	2,877	-
Rent	49,560	49,560
Insurance	14,180	1,478
Financial services	40,276	36,810
Communications	4,401	3,865
Membership fees	1,405	2,517
Total contractual services	<u>833,140</u>	<u>167,467</u>
Materials expenses		
Office supplies	6,440	5,152
Information technology	2,500	1,407
Depreciation expense	3,605	3,224
Interest expense	1,865	1,068
Total materials expenses	<u>14,410</u>	<u>10,851</u>
Payroll expenses		
Salary	96,768	19,842
Employee benefits	4,839	992
Payroll tax expense	8,353	1,904
Total payroll expenses	<u>109,960</u>	<u>22,738</u>
Total operating expenses (supplemental schedule II)	<u>957,510</u>	<u>201,056</u>
Total operating loss	(198,082)	(70,482)
Nonoperating revenues		
Interest income	2,090	4,421
Increase (decrease) in net position	(195,992)	(66,061)
Total net position		
Beginning of year	992,937	1,058,998
End of year	<u>\$ 796,945</u>	<u>\$ 992,937</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, 2017 AND 2016

	2017	Restated 2016
<b>Cash flows from operating activities</b>		
Cash received from FNSB	\$ 368,153	\$ 102,837
Cash paid to suppliers and consultants	(761,563)	(185,485)
Cash paid related to employee	(109,564)	(18,901)
Interest received	2,090	4,421
Interest paid	(726)	(1,592)
Net cash used for operating activities	(501,610)	(98,720)
<b>Cash flows from investing activities</b>		
Utility plant in service	-	(2,074)
Capitalized engineering and feasibility charges	(1,563,020)	(19,288,486)
Net cash used for financing activities	(1,563,020)	(19,290,560)
<b>Cash flows from financing activities</b>		
Advances on lines of credit	-	17,202,257
Net cash provided by financing activities	-	17,202,257
Decrease in cash	(2,064,630)	(2,187,023)
<b>Cash</b>		
Beginning of year	4,534,715	6,721,738
End of year	\$ 2,470,085	\$ 4,534,715
<b>Noncash activities</b>		
Line of credit accrued interest in accounts payable	\$ 1,865	\$ 726
Capitalized costs in accounts payable	\$ 176,442	\$ 294,287

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, 2017 AND 2016

	<u>2017</u>	<u>Restated 2016</u>
<b>Reconciliation of increase (decrease) in net position to net cash used for operating activities</b>		
Increase (decrease) in net position	<u>\$ (195,992)</u>	<u>\$ (66,061)</u>
Adjustments		
Depreciation	3,605	3,224
(Increase) decrease in assets		
Contract receivables	(98,413)	(27,737)
Other receivables	(337,625)	-
Prepayments - operating	(48)	(12,720)
Increase (decrease) in liabilities		
Accounts payable - operating	82,100	4,574
Due to Fairbanks North Star Borough	<u>44,763</u>	<u>-</u>
Total adjustments	<u>(305,618)</u>	<u>(32,659)</u>
Net cash used for operating activities	<u><u>\$ (501,610)</u></u>	<u><u>\$ (98,720)</u></u>

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

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# INTERIOR ALASKA NATURAL GAS UTILITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

### 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 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. IGU has a long-term goal to deliver gas to the customers' meter for approximately \$15 per thousand cubic feet (mcf) by fall of 2019. Based on current project economics, it is unlikely the pricing goals will be achievable within that time frame.

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, 2017 AND 2016  
(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 measurable 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 affect 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, 2017 AND 2016

(Continued)

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

**Cash or 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 service and is stated at cost. Straight line depreciation is computed over the useful lives of the assets, estimated at five to seven years. 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.

**Other receivables** - Other receivables are recorded when invoices are issued and are presented in the balance sheet, net of allowance for doubtful accounts, if any. Other receivables are made up of AIDEA IEP Reimbursement funds.

**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, management evaluated events and transactions for potential recognition or disclosure through October 17, 2017, the date the financial statements were available to be issued.

# INTERIOR ALASKA NATURAL GAS UTILITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016  
(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, 2016, and 2017 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, 2017 follows:

	Restated July 1, 2016	Additions	Deductions	June 30, 2017
Gas plant in service	\$ 21,598	\$ -	\$ -	\$ 21,598
Less accumulated depreciation	5,323	3,605	-	8,928
Net gas plant in service	16,275	(3,605)	-	12,670
Construction work in progress	26,135,171	1,445,174	-	27,580,345
Intangible plant	729,676	-	-	729,676
	<u>\$ 26,881,122</u>	<u>\$ 1,441,569</u>	<u>\$ -</u>	<u>\$ 28,322,691</u>



# INTERIOR ALASKA NATURAL GAS UTILITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

(Continued)

### NOTE 3 - UTILITY PLANT (continued)

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

	July 1, 2015	Restated Additions	Deductions	Restated June 30, 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	14,762,668	-	26,135,171
Intangible plant	729,676	-	-	729,676
	<u>\$ 12,119,604</u>	<u>\$ 14,761,518</u>	<u>\$ -</u>	<u>\$ 26,881,122</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 balance outstanding at June 30, 2017 and 2016 was \$29,689,476.

# INTERIOR ALASKA NATURAL GAS UTILITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

(Continued)

### **NOTE 4 - LINES OF CREDIT** (continued)

IGU has incurred due diligence and integration costs totaling approximately \$622,800 which were funded using the AIDEA line of credit. This use of line of credit funds was contested by AIDEA. On September 21, 2017, AIDEA agreed to allow IGU to use the line of credit funds for the payment of integration costs totaling approximately \$327,000. AIDEA is still contesting the use of the line of credit funds for the payment of due diligence costs totaling approximately \$295,800. By agreement, the issue is being resolved favorably with AIDEA based on a combination of providing for a modification of the existing line of credit as well as using alternative funding sources made available from AIDEA.

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 the Federal Funds Rate as of January 1. The balance outstanding was \$500,000 at June 30, 2017 and 2016, respectively. In August 2017 the outstanding balance and accrued interest was repaid to the Borough.

### **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. The uninsured and uncollateralized balance was \$287,715 and \$0 at June 30, 2017 and 2016, respectively. 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

YEARS ENDED JUNE 30, 2017 AND 2016

(Continued)

**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 1 and 2	Task 3	Task 4	Task 5	Total
Contract budget	\$ 319,000	\$ 1,655,221	\$ 735,200	\$ 288,500	\$ 2,997,921
Contract costs in fiscal year 2013	(184,533)	(314)	(5,638)	-	(190,485)
Contract costs in fiscal year 2014	(23,776)	(264,906)	(724,038)	(102,188)	(1,114,908)
Contract costs in fiscal year 2015	-	(111,061)	-	-	(111,061)
Contract costs in fiscal year 2016	-	(130,574)	-	-	(130,574)
Contract costs in fiscal year 2017	-	(421,803)	-	-	(421,803)
Total contract costs incurred	(208,309)	(928,658)	(729,676)	(102,188)	(1,968,831)
Allocated to future operating expenses	(110,691)	-	(5,524)	(186,312)	(302,527)
	(319,000)	(928,658)	(735,200)	(288,500)	(2,271,358)
Remaining on contract at June 30, 2017	\$ -	\$ 726,563	\$ -	\$ -	\$ 726,563

\* 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, 2017 AND 2016  
(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 Commitments	2017	2016
Stantec Consulting Services, Inc. (formerly MWH Americas, Inc.), Task orders authorized	\$ 655,329	\$ 1,252,813	\$ 1,343,578
PDC, Inc. Engineers, Phase 1 design	50,219	248,142	908,931
Michael Baker, Jr. Corporation, Phase 1 & 2 design	-	-	138,158
Norstar Pipeline Company Gas hydraulic modeling & quality control	22,742	-	154,808
Ferguson Enterprises, Inc. Supply of phase 1 gas main pipe	-	-	144,776
Gage Tree Service, LLC Phase 1 clearing - zones A&C	-	-	54,071
Carlos Tree Service, LLC Phase 1 clearing - zone B	-	-	52,242
Central Environmental, Inc. Construction - phase 1 zone A	47,500	97,440	5,023,824
Utility Technologies, Inc. Construction - phase 1 zone B	28,498	6,150	3,797,384
Robinson Brothers Construction Construction - phase 1 zone C	-	81,775	3,083,525
Cook & Haugeberg, LLC Financial statement audit	15,662	19,521	21,906
RJG, A Professional Corporation Bookkeeping services	54,321	44,150	46,098
	<u>\$ 874,271</u>	<u>\$ 1,749,991</u>	<u>\$ 14,769,301</u>

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

(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 continues 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 which expired on March 10, 2017. IGU continues to lease the land on a month-to-month basis at the same monthly rate.

**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 years ended June 30, 2017 and 2016 were \$4,839 and \$992, respectively.

**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.

# INTERIOR ALASKA NATURAL GAS UTILITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016  
(Continued)

### NOTE 11 - PRIOR PERIOD ADJUSTMENT

The financial statements for the year ended June 30, 2016 have been restated to reflect a reduction in capitalized construction work in progress of \$69,700 and an increase in contract services expense of \$69,700 related to capitalized due diligence expenditures that should have been expensed. Cash paid to suppliers and consultants changed by \$70,070 to correctly classify capital related expenditures. The effect of this restatement on the financial statements for the year ended June 30, 2016 is summarized in the table below.

	2016 As originally issued	Change	2016 As adjusted
Statement of revenues, expenses and changes in net position			
Operating expenses	\$ -	\$ 69,700	\$ 69,700
Increase (decrease) in net position	\$ 3,639	\$ (69,700)	\$ (66,061)
Statement of net position			
Construction work in progress additions	\$ 14,832,368	\$ (69,700)	\$ 14,762,668
Capitalized construction work in progress	\$ 26,204,871	\$ (69,700)	\$ 26,135,171
Net position unrestricted	\$ 332,961	\$ (69,700)	\$ 263,261
Statement of cash flows			
Cash paid to suppliers and consultants	\$ (115,415)	\$ (70,070)	\$ (185,485)
Capitalized engineering and feasibility charges	\$ (19,358,186)	\$ 69,700	\$ (19,288,486)

## SUPPLEMENTARY INFORMATION

INTERIOR ALASKA NATURAL GAS UTILITY  
SCHEDULE I - CAPITALIZED CONSTRUCTION WORK IN PROGRESS  
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>Restated 2016</u>
Phase 1		
Engineering, ROW, permitting	\$ 1,888,692	\$ 1,888,692
Construction management	2,088,222	1,895,320
Program management	3,969,908	3,190,163
Contingency	544,940	255,591
Materials	1,405,153	1,407,341
Construction	<u>16,945,572</u>	<u>16,760,206</u>
Subtotal Phase 1	26,842,487	25,397,313
Phase 2		
Engineering, ROW, permitting	<u>737,858</u>	<u>737,858</u>
	<u>\$ 27,580,345</u>	<u>\$ 26,135,171</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, 2017 AND 2016

	<u>2017</u>	<u>Restated 2016</u>
Subcontractor and operating expenses by task		
Task 3 utility support	<u>\$ 404,414</u>	<u>\$ 131,356</u>
Subtotal subcontractor expenses by task	<u>404,414</u>	<u>131,356</u>
Expenses paid with AIDEA loan funds		
Due diligence	226,101	69,700
Integration	<u>326,995</u>	<u>-</u>
Subtotal due diligence & integration expenses	<u>553,096</u>	<u>69,700</u>
Total operating expenses	<u><u>\$ 957,510</u></u>	<u><u>\$ 201,056</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, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2017.

**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, and contracts, 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 17, 2017