



INTERIOR ALASKA NATURAL GAS UTILITY

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2015 AND 2014

and

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

INTERIOR ALASKA NATURAL GAS UTILITY
FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION
Years Ended June 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, and its revenues, expenses and changes in net position and its cash flows thereof 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 15, 2015, 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 15, 2015

FINANCIAL STATEMENTS

INTERIOR ALASKA NATURAL GAS UTILITY

STATEMENT OF NET POSITION

June 30, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Utility plant (note 3)		
Gas plant in service, at cost	\$ 19,524	\$
Construction work in progress (supplemental schedule I)	11,372,503	301,865
Intangible plant		
Certificate of Public Convenience and Necessity	729,676	729,676
Total utility plant	12,121,703	1,031,541
Less accumulated provision for depreciation	(2,099)	
Net utility plant	12,119,604	1,031,541
Current assets		
Cash	6,721,738	354,956
Contract receivables	24,632	
Prepayments	4,130	
Total current assets	6,750,500	354,956
Total assets	\$ 18,870,104	\$ 1,386,497
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities		
Alaska Industrial Development and Export Authority line of credit (note 4)	\$ 12,487,219	\$ 15,000
Fairbanks North Star Borough line of credit (note 4)	500,000	
Accounts payable	4,823,887	290,602
Unearned contract revenue		39,780
Total current liabilities	17,811,106	345,382
Net position		
Net investment in capital assets	729,676	729,676
Unrestricted	329,322	311,439
Total net position	1,058,998	1,041,115
Total liabilities and net position	\$ 18,870,104	\$ 1,386,497

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, 2015 and 2014

	2015	2014
Operating revenues		
Contract revenue	\$ 111,061	\$ 1,304,556
Donations		9,500
Total operating revenues	111,061	1,314,056
Operating expenses		
Contractual services		
Advertising	4,111	5,015
Contractual services		375,615
Legal fees	558	2,574
Office expenses	11,585	3,624
Travel	2,583	4,292
Rent	35,172	
Insurance	3,123	
Financial services	22,599	
Communications	8,144	
Membership fees	1,113	
Total contractual services	88,988	391,120
Materials expenses		
Office supplies	899	
Information technology	1,835	
Depreciation	2,099	
Interest expense	1,250	
Total materials expenses	6,083	
Total operating expenses	95,071	391,120
Operating income	15,990	922,936
Nonoperating revenues		
Interest income	1,893	
Increase in net position	17,883	922,936
Net position - beginning	1,041,115	118,179
Net position - ending	\$ 1,058,998	\$ 1,041,115

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

INTERIOR ALASKA NATURAL GAS UTILITY

STATEMENT OF CASH FLOWS

Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Cash received from customers and affiliates	\$ 46,649	\$ 639,950
Cash paid to suppliers and consultants	(97,055)	(121,066)
Interest received	1,893	
Net cash provided by (used for) operating activities	(48,513)	518,884
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(6,541,924)	(1,010,903)
Proceeds from lines of credit	12,957,219	
Net cash provided by (used for) capital and related financing activities	6,415,295	(1,010,903)
Net increase (decrease) in cash	6,366,782	(492,019)
Cash balance at beginning of year	354,956	846,975
Cash balance at end of year	<u>\$ 6,721,738</u>	<u>\$ 354,956</u>
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities		
Operating income	<u>\$ 17,883</u>	<u>\$ 922,936</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,099	
(Increase) decrease in assets		
Accounts receivable		314
Contract receivables	(24,632)	
Prepayments	(4,130)	
Increase (decrease) in liabilities		
Accounts payable for operating activities	47	270,054
Unearned contract revenue	(39,780)	(674,420)
Total adjustments	(66,396)	(404,052)
Net cash provided by (used for) operating activities	<u>\$ (48,513)</u>	<u>\$ 518,884</u>
Noncash capital and financing activities		
AIDEA line of credit fees and charges	<u>\$ 15,000</u>	<u>\$ 15,000</u>
Line of credit accrued interest in accounts payable	<u>\$ 1,250</u>	<u>\$</u>
Capitalized costs in accounts payable	<u>\$ 4,820,103</u>	<u>\$ 286,865</u>

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

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

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

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/FinancialServices/DefaultDocuments.htm.

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 measureable. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with IGU's principal ongoing operations.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Use of Estimates - In preparing financial statements in conformity with generally accepted accounting principles, management is required 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.

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 includes items such as contracted services, direct materials, indirect overhead charges and interest accrued 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. Depreciation is computed over the estimated useful lives of the assets. IGU capitalizes assets valued at more than \$1,000 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 taxes.

Reclassifications - Certain reclassifications, which have no effect on change in net position, have been made to the June 30, 2014 financial statements to conform them to current classifications.

Subsequent Events - In preparing these financial statements, the company evaluated events and transactions for potential recognition or disclosure through October 15, 2015, the date the financial statements were available to be issued.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS (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 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 through fiscal year 2014 related to obtaining a Certificate of Public Convenience and Necessity (CPCN) permit from the Regulatory Commission of Alaska, which have been capitalized by IGU, totaled \$729,676.

Long term considerations

IGU has a commitment from AIDEA to provide financing of the distribution system. Construction costs for the 2015 summer season are projected to be \$27,000,000, inclusive of design and project management. Based on the terms of the line of credit between AIDEA and IGU, the terms 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, 2015 follows:

	July 1, 2014	Additions	Deductions	June 30, 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
Total capital assets	<u>\$ 1,031,541</u>	<u>\$ 11,088,063</u>	<u>\$</u>	<u>\$ 12,119,604</u>

A summary of capital assets at June 30, 2014 follows:

	July 1, 2013	Additions	Deductions	June 30, 2014
Intangible plant	\$	\$ 729,676	\$	\$ 729,676
Construction work in progress		301,865		301,865
Total capital assets	<u>\$</u>	<u>\$ 1,031,541</u>	<u>\$</u>	<u>\$ 1,031,541</u>

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS (Continued)

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 construction work in progress will revert to AIDEA and the loan will be forgiven. The balances outstanding at June 30, 2015 and 2014 were \$12,487,219 and \$15,000, respectively.

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 are 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 at June 30, 2015 was \$500,000. There was no balance outstanding at June 30, 2014.

NOTE 5 - RELATED PARTY TRANSACTIONS

IGU is wholly owned by the Fairbanks North Star Borough but is legally separate. IGU has received a services contract from the Borough. A summary of contract amounts at June 30, 2015 follows (Phase I and task 4 were completed in fiscal year 2014):

	<u>Phase II</u>		
	<u>Task 3</u>	<u>Task 5</u>	<u>Totals</u>
Contract budget	\$ 1,101,635	\$ 288,500	\$ 1,390,135
Contract costs in fiscal year 2013	(314)		(314)
Contract costs in fiscal year 2014	(264,906)	(102,188)	(367,094)
Contract costs in fiscal year 2015	(111,061)		(111,061)
Total task costs incurred	(376,281)	(102,188)	(478,469)
Allocated to future operating expenses		(186,312)	(186,312)
Subtotal	(376,281)	(288,500)	(664,781)
Remaining on contract at June 30, 2015	<u>\$ 725,354</u>	<u>\$</u>	<u>\$ 725,354</u>

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

A summary of contract amounts at June 30, 2014 follows (Tasks 1, 2, and 4 were completed in fiscal year 2014):

	Phase I	Phase II			
	¹ Task 1 and 2	Task 3	Task 4	Task 5	Totals
Contract budget	\$ 319,000	\$ 1,101,635	\$ 735,200	\$ 288,500	\$ 2,444,335
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)
Total task costs incurred	(208,309)	(265,220)	² (729,676)	(102,188)	(1,305,393)
Allocated to future operating expenses	(110,691)		(5,524)	(186,312)	(302,527)
Subtotal	(319,000)	(265,220)	(735,200)	(288,500)	(1,607,920)
Remaining on contract at June 30, 2014	\$	\$ 836,415	\$	\$	\$ 836,415

¹ 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.

² Costs associated with obtaining award of the CPCN are included in capitalized intangible plant assets on the statement of net position.

NOTE 6 - 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 not experienced any loss in such accounts. As of June 30, 2015, the uninsured balance was \$5,971,738. IGU believes it is not exposed to any significant credit risk on cash and cash equivalents. IGU has no investment policy that would limit this type of credit risk.

NOTE 7 - OPERATING LEASES

IGU leases an office facility in Fairbanks, Alaska under an operating lease which expires September 30, 2016. The monthly rent expense for 2015 was \$4,130.

IGU leases land in North Pole, Alaska for pipe inventory storage. The lease requires regular monthly payments of \$1,750 and expires on March 10, 2016.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - COMMITMENTS

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

	<u>Contract</u>	<u>2015 Activity</u>	<u>2014 Activity</u>
MWH Americas, Inc., Task Orders Authorized	\$ 3,798,784	\$ 1,629,419	\$ 511,093
PDC, INC. Engineers, Phase 1 Design	2,976,924	2,194,711	
Michael Baker, Jr. Corporation, Phase 1 & 2 Design	¹ 1,455,882	833,513	
Norstar Pipeline Company, Gas Hydraulic Modeling & Quality Control	297,000	119,450	
Ferguson Enterprises, Inc. Supply of Phase 1 Gas Main Pipe	1,368,620	1,227,258	
Gage Tree Service, LLC Phase 1 Clearing - Zones A & C	522,806	468,735	
Carlos Tree Service, LLC Phase 1 Clearing - Zone B	507,863	455,622	
Central Environmental, Inc. Construction - Phase 1 Zone A	7,594,727	1,797,009	
Utility Technologies, Inc. Construction - Phase 1 Zone B	5,067,207	1,338,174	
Robinson Brothers Construction Construction - Phase 1 Zone C	3,843,449	689,621	
Cook & Haugeberg, LLC Financial Statement Audit	19,565	15,831	
RJG, A Professional Corporation Bookkeeping Services	52,600	41,635	
	<u>\$ 27,505,427</u>	<u>\$ 10,810,978</u>	<u>\$ 511,093</u>

¹ Included in the contract is \$480,266 that has been approved by the IGU board of directors and is pending final approval by AIDEA before final award to Michael Baker, Jr. Corporation.

NOTE 9 - CONTINGENCIES

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

NOTE 10 - SUBSEQUENT EVENTS

A significant number of contractual commitments were entered into in July through October 2015. See the note titled Commitments.

SUPPLEMENTARY INFORMATION

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INTERIOR ALASKA NATURAL GAS UTILITY

SCHEDULE I - CAPITALIZED CONSTRUCTION WORK IN PROGRESS

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Phase 1		
Engineering, ROW, permitting	\$ 1,750,535	\$
Construction management	831,582	
Program management	1,916,284	286,865
Contingency	134,954	15,000
Materials	1,252,129	
Construction	<u>4,749,161</u>	
Subtotal Phase 1	10,634,645	301,865
Phase 2		
Engineering, ROW, permitting	<u>737,858</u>	
	<u>\$ 11,372,503</u>	<u>\$ 301,865</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Expenses paid by private donations		
Office expenses	\$	\$ 250
Travel expenses	<u>1,781</u>	
Subtotal expenses paid by private donations	<u>1,781</u>	<u>250</u>
Subcontractor expenses by task		
Task 2 community plan for distribution		23,776
Task 3 utility support	93,290	264,906
Task 4 CPCN support		724,038
Task 5 financial analysis and business plan		<u>102,188</u>
Subtotal subcontractor expenses by task	<u>93,290</u>	<u>1,114,908</u>
Total expenditures	95,071	1,115,158
Transfer costs to capitalize CPCN		<u>(724,038)</u>
Total operating expenses	<u>\$ 95,071</u>	<u>\$ 391,120</u>

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

SUPPLEMENTAL REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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INDEPENDENT AUDITOR'S 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*

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 years ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2015.

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 15, 2015