Cook & Haugeberg LLC
CERTIFIED PUBLIC ACCOUNTANTS

INTERIOR ALASKA NATURAL GAS UTILITY

CONSOLIDATING FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

and

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

INTERIOR ALASKA NATURAL GAS UTILITY

CONSOLIDATING FINANCIAL STATEMENTS

For the year ended June 30, 2018

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Overview of the Financial Statements

The financial statements of Interior Alaska Natural Gas Utility (IGU) report financial activity for one subsidiary company, Pentex Alaska Natural Gas Company, LLC (Pentex). The financial statements of Pentex report financial activity for four subsidiary companies; Fairbanks Natural Gas, LLC (FNG), Titan Alaska LNG, LLC (Titan), Arctic Energy Transportation, LLC (AET) and Polar LNG, LLC (Polar). Pentex's sole member is the IGU, a discretely presented component unit of the Fairbanks North Star Borough (Borough).

The financial analysis beginning on page iv presents assets, liabilities and net position on a comparative basis. During the fiscal year, IGU acquired Pentex and its subsidiaries, effective at close of business on June 13, 2018. The consolidating financial statements for the year ended June 30, 2018 reflect the assets purchased, and the operations of the Pentex companies for the period from June 14, 2018 to June 30, 2018. The comparative prior period covered is July 1, 2016 through June 30, 2017 and reflects operations of IGU as a stand alone entity, prior to the purchase of Pentex. Therefore, this analysis reflects variances that normally do not exist. The operating revenues and expenses, net nonoperating revenues (expenses) and change in net position for the period July 1, 2017 to June 30, 2018 beginning on page viii are not presented in comparative form.

The financial statements contain three sections: management's discussion and analysis, consolidating financial statements and notes to consolidating financial statements. IGU operations are business type activities and follow enterprise fund accounting. IGU is a discretely presented component unit of the Borough. 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 http://www.co.fairbanks.ak.us/fs/Pages/Comprehensive-Annual-Financial-Reports.aspx.

Consolidating Financial Statements

Statement of Net Position reports assets, liabilities, deferred outflows of resources, and net position at year-end. Net position is reported as: net investment in capital assets, restricted and unrestricted.

Statement of Revenues, Expenses and Changes in Net Position reports income, expenses, and resulting changes in net position during the reporting period.

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

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

Notes to Consolidating Financial Statements provide more information to better understand the amounts reported in the consolidating financial statements.

Management's Discussion and Analysis

This section contains an analysis of the financial position and results of operations for the period July 1, 2017 to June 30, 2018. The section helps the reader focus on significant financial matters and provides additional information regarding IGU's activities. For best understanding, read this information with the Report of Independent Certified Public Accountants, the audited consolidating financial statements and the accompanying notes.

Financial Highlights

IGU's assets and deferred outflows of resources exceeded its liabilities at June 30, 2018 by $40.6 million. June 30, 2018 unrestricted net position was $3.3 million and restricted net position was $324 thousand. The unrestricted net position was available for future financial needs and the restricted was available for future construction activities related to the Interior Energy Project (IEP) capital projects.

Financial Analysis

Following are IGU's total assets and deferred outflows of resources, liabilities and net position at June 30, 2018 and June 30, 2017:

	June 30, 2018	June 30, 2017	Increase (Decrease)
Current assets	$ 9,143,697	$ 2,975,390	$ 6,168,307
Property, plant and equipment	104,752,925	28,322,691	76,430,234
Total assets	113,896,622	31,298,081	82,598,541
Deferred outflows of resources	8,972,738		8,972,738
Total assets and deferred outflows of resources	$ 122,869,360	$ 31,298,081	$ 91,571,279
Current liabilities	$ 3,835,656	$ 311,660	$ 3,523,996
Noncurrent liabilities	78,453,944	30,189,476	48,264,468
Total liabilities	82,289,600	30,501,136	51,788,464
Net investment in capital assets	36,922,685	729,676	36,193,009
Restricted	323,970		323,970
Unrestricted	3,333,105	67,269	3,265,836
Total net position	40,579,760	796,945	39,782,815
Total liabilities and net position	$ 122,869,360	$ 31,298,081	$ 91,571,279

Current assets were $6.2 million higher at June 30, 2018 compared to June 30, 2017 as outlined below:

	June 30, 2018	June 30, 2017	Increase (Decrease)
Cash	$ 6,259,525	$ 2,470,085	$ 3,789,440
Cash - restricted construction funds	323,970		323,970
Investments	406,317		406,317
Accounts receivable, net allowance for doubtful accounts ($75,000, 2018 and $0, 2017)	592,369		592,369
Other receivable - FNSB contract	150,085	150,782	(697)
Other receivable - AIDEA agreement	258,663	337,625	(78,962)
Liquefied natural gas inventory	437,886		437,886
Materials and supplies inventory	454,240		454,240
Deposits and other current assets	260,642	16,898	243,744
Total current assets	$ 9,143,697	$ 2,975,390	$ 6,168,307

- **Cash** balances were $3.8 million higher at June 30, 2018 compared to June 30, 2017 largely as a result of the acquisition of Pentex. Significant uses of cash included repayment of line of credit obligations to the Borough and Alaska Industrial Development and Export Authority (AIDEA) of $500 thousand and $343 thousand, respectively and costs incurred for the continued build out of the distribution system totaling $1.0 million.

- **Restricted cash** increased $324 thousand due to the advance of line of credit funds from AIDEA that have not been expended as of June 30, 2018. The funds are restricted to distribution expansion activities and are not available for normal operations of the utility.

- **Investments** increased $406 thousand due to the acquisition of Pentex. The investment represents the net results of deposits and unrealized and realized gains and losses of the deferred compensation account.

- **Accounts receivable, net** increased $592 thousand due to the acquisition of Pentex. The accounts receivable represents the trade accounts for the customers of FNG.

- **Other receivable - FNSB contract** decreased $697 dollars. No significant activity caused the variance.

- **Other receivable - AIDEA agreement** decreased $79 thousand. Significant transactions during the fiscal year included a cost reimbursement agreement between FNG and AIDEA related to front end engineering and design (FEED) for the LNG storage project under construction which increased the account by $259 thousand, and IGU receiving reimbursements of $338 thousand from AIDEA for costs incurred in seeking an affordable gas supply for the Interior Energy Project (IEP).

- **Liquefied natural gas (LNG) inventory** increased $438 thousand due to the acquisition of Pentex.

- **Materials and supplies inventory** increased $454 thousand primarily due to the acquisition of Pentex. IGU also reclassified $171 thousand of materials inventory out of the construction work in process (CWIP) materials account.

- **Deposits and other current assets** increased $243 thousand primarily due to the acquisition of Pentex.

Property, plant and equipment balances were $76.4 million higher at June 30, 2018 compared to June 30, 2017 as outlined below:

	June 30, 2018	June 30, 2017	Increase (Decrease)
Property, plant and equipment in service, at cost	$ 41,985,577	$ 751,274	$ 41,234,303
Less: accumulated provision for depreciation and amortization	117,585	8,928	108,657
Net property, plant and equipment in service	41,867,992	742,346	41,125,646
Gas plant held for future use, at cost	39,234,592		39,234,592
Construction work in progress	23,650,341	27,580,345	(3,930,004)
Total net property, plant and equipment	$ 104,752,925	$ 28,322,691	$ 76,430,234

- **Gas plant in service, at cost** increased $41.2 million due to the acquisition of Pentex.

- **Gas plant held for future use, at cost** increased $39.2 million due to $16.9 million acquired from the acquisition of Pentex and $22.3 million was reclassified from IGU's CWIP accounts.

- **Construction work in progress (CWIP)** decreased $3.9 million due to reclassifying $22.4 million of IGU's CWIP to gas plant held for future use. The acquisition of Pentex increased CWIP by $18.5 million. The Pentex CWIP is related to the ongoing construction of FNG's large storage project and small distribution projects.

Deferred outflows of resources increased $9 million due to the acquisition of Pentex.

Current liabilities were $3.5 million higher at June 30, 2018 compared to June 30, 2017 as outlined below:

	June 30, 2018	June 30, 2017	Increase (Decrease)
Current maturities of long-term debt	$ 158,945	$	$ 158,945
Accrued wages and burden	183,859		183,859
Accounts payable	583,344	266,897	316,447
Construction payable	2,902,478		2,902,478
Other current and accrued liabilities	7,030		7,030
Due to Fairbanks North Star Borough		44,763	(44,763)
Total current liabilities	$ 3,835,656	$ 311,660	$ 3,523,996

- **Current maturities of long-term debt** increased $159 due to the acquisition of Pentex.

- **Accrued wages and burden** increased $184 thousand due to the acquisition of Pentex.

- **Accounts payable** increased $316 thousand due to the acquisition of Pentex. No significant activity caused this variance.

- **Construction payable** increased $2.9 million due to the acquisition of Pentex. The payable is related to the construction activities of FNG's large storage project.

- **Other current and accrued liabilities** increased $7 thousand due to the acquisition of Pentex.

- **Due to Fairbanks North Star Borough** decreased $45 thousand due to the reclassification of expenditures in 2017 which were initially charged against services contract revenue funding received from the Borough.

Noncurrent liabilities were $48.2 million higher at June 30, 2018 compared to June 30, 2017 as outlined below:

	June 30, 2018	June 30, 2017	Increase (Decrease)
Accumulated deferred compensation	$ 406,317	$	$ 406,317
Long-term debt, less current maturities			
AIDEA line of credit		29,689,476	(29,689,476)
FNSB line of credit		500,000	(500,000)
AIDEA term loan	77,173,400		77,173,400
Equipment loans payable	874,227		874,227
Total noncurrent liabilities	$ 78,453,944	$ 30,189,476	$ 48,264,468

- **Accumulated deferred compensation** increased $406 thousand due to the acquisition of Pentex. This account is directly related to the investment account.

- **AIDEA line of credit** decreased $29.7 million due to the conversion of the line of credit to a term loan with AIDEA and IGU repayment to AIDEA of $342 thousand.

- **FNSB line of credit** decreased $500 thousand due to the repayment of previous draws.

- **AIDEA term loan** increased $77.1 million. $21.2 million of the increase was used in the acquisition of Pentex; $26.6 million of the increase was used in the refinancing of FNG's line of credit with AIDEA; $29.3 million was used in the refinancing of the IGU line of credit with AIDEA.

- **Equipment loans payable** increased $874 thousand due to the acquisition of Pentex. The equipment loans are related to LNG transport trailers operated by Titan.

Total net position increased $39.8 million during the period ended June 30, 2018 as outlined below:

Beginning net position (July 1, 2017)	$ 796,945
Additions:	
Acquisition of Pentex	40,254,796
Reductions:	
Net change resulting from operating and nonoperating activities	(471,981)
Ending net position (June 30, 2018)	$ 40,579,760

Net position at June 30, 2018 was categorized as follows:

Net investment in capital assets	$ 36,922,685
Restricted	323,970
Unrestricted	3,333,105
Ending net position (June 30, 2018)	$ 40,579,760

Following are IGU's operating revenues and expenses, net nonoperating revenues (expenses) and change in net position for the period July 1, 2017 to June 30 2018:

	June 30, 2018
Operating revenues	
Residential sales	$ 15,605
Commercial sales	172,342
Interruptible sales	109,844
FNSB contract revenue	421,988
AIDEA Interior Energy Project funds	5,072
Other operating revenues	16,153
Total operating revenues	741,004
Operating expenses	
Natural gas purchases	133,669
Trucking	34,442
Electricity	32,089
Gas liquefaction expenses	86,716
Fairbanks distribution operations	30,934
Fairbanks distribution maintenance	730
Fairbanks storage and vaporization operations	5,005
Fairbanks storage and vaporization maintenance	26,926
Engineering	9,670
AET operations and maintenance	796
Talkeetna maintenance	27
Customer service	2,844
Administrative and general expenses	722,678
Interest expense	3,307
Depreciation	108,657
Amortization	5,734
Total operating expenses	1,204,224
Operating loss	(463,220)
Nonoperating revenues (expenses)	
Interest and dividend income	743
Other income	600
Net decrease in fair value of investments	(10,104)
Nonoperating revenues (expenses) total	(8,761)
Change in net position	(471,981)
Net position - beginning of period	41,051,741
Net position - end of period	$ 40,579,760

Operating revenues for the period July 1, 2017 to June 30, 2018. All operating revenues with the exception of FNSB contract revenue and AIDEA Interior Energy Project funds are for the period June 14, 2018 to June 30, 2018.

- **Residential sales** include tariff rate approved sales for customers classified as residential.
- **Commercial sales** include tariff rate approved sales for customers classified as small commercial and large commercial, and sales agreements for commercial customers outside of service area located in Fairbanks, Alaska (AK).
- **Interruptible sales** include tariff rate approved sales for customers classified as small commercial interruptible and tariff approved sales agreements for large commercial interruptible customers.
- **FNSB contract revenue** includes services contract revenue received by IGU during the fiscal year.
- **AIDEA Interior Energy Project (IEP) funds** includes revenues received by IGU relating to the IEP cost reimbursement agreement with AIDEA.
- **Other operating revenues** includes a customer charge that is a fixed charge at various amounts dependent upon customer classification, application fees for service or transfer of service, penalty charges for late payments and other direct utility services.

Operating expenses for the period July 1, 2017 to June 30, 2018. All operating expenses with the exception of administrative and general, interest and depreciation expenses are for the period June 14, 2018 to June 30, 2018.

- **Natural gas purchases** represent the cost of gas consumed by all customers serviced by IGU's owned companies.
- **Trucking** represents the cost of transporting LNG from the LNG plant to the LNG storage facilities.
- **Electricity** represents the cost of electricity used in the natural gas liquefaction process.
- **Gas liquefaction expenses** represent the cost to operate and maintain the equipment to liquefy natural gas for transport to Fairbanks and other destinations in Alaska (AK).
- **Distribution operations** includes costs related to general operations of the distribution system located in Fairbanks, AK.
- **Distribution maintenance** includes costs related to maintenance operations of the distribution system located in Fairbanks, AK.
- **Storage and vaporization operations** includes costs related to general operations of the storage and vaporization system located in Fairbanks, AK and Talkeetna, AK and a storage system located in Houston, AK.
- **Storage and vaporization maintenance** includes costs related to general maintenance of the storage and vaporization system located in Fairbanks, AK and Talkeetna, AK and a storage system located in Houston, AK.

- **Engineering** includes costs for in-house engineering related to capital projects and state/federal regulation compliance.

- **AET operations and maintenance** includes costs for day-to-day operations and maintenance of the two LNG dispensing stations.

- **Talkeetna maintenance** includes costs for day-to-day maintenance of the stand-alone storage and vaporization system located at the Talkeetna Lodge, vicinity of Talkeetna, AK.

- **Customer service** includes costs for servicing of customer accounts, meter reading and general customer support.

- **Administrative and general expenses** includes costs related to the board of directors, management, administrative staff and general operations such as facilities costs and supplies that are not directly related to other operating departments.

- **Depreciation and amortization** represents the allocation of the cost of property, plant and equipment assets over the useful lives of the assets and amortization of the gas plant acquisition adjustment.

Fixed charges for the period July 1, 2017 to June 30, 2018 consisted of:

- **Interest expense** is the cost of financing current equipment and expansion projects. See *Long-term debt* note to consolidating financial statements and *Line of credit* note to consolidating financial statements.

Net nonoperating revenues (expenses) for the period July 1, 2017 to June 30, 2018 are comprised of gains/(losses) from dispositions of property, plant and equipment and materials and supplies inventory, interest/dividend income from investments and net unrealized gains (losses) from investment in the deferred compensation plan.

Outlook

The IGU companies have positive opportunities in the future to strengthen their ability to better serve their customers. FNG is currently constructing a 5.25 million gallon storage system that will provide much needed capacity to serve a greater number of new customers while greatly increasing the security of supply. The Board of Directors continue to evaluate gas supply options for the future expansion of services and Titan is an integral part of the discussion which includes plans for increasing its capabilities to deliver greater quantities of LNG to Fairbanks and other locations throughout Alaska.

Cook & Haugeberg LLC
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Certified Public Accountants

Interior Alaska Natural Gas Utility and subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidating statement of net position of Interior Alaska Natural Gas Utility and its subsidiaries (IGU), a discretely presented component unit of the Fairbanks North Star Borough, as of and for the year ended June 30, 2018, and the related consolidating statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidating financial statements, which collectively comprise IGU's consolidating financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidating 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 consolidating 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 consolidating financial statements are free from material misstatement.

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

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

119 North Cushman Street, Suite 300 • Fairbanks, Alaska 99701 • 907-456-7762
Fax 907-452-6184 • www.ch-cpa.com • email: Contact@ch-cpa.com

Partners: Gerald D. Haugeberg   Kara Moore   Kathleen A.R. Thompson
Senior Consultants: James F. Dieringer, Jr.   Michael T. Cook

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidating net position of Interior Alaska Natural Gas Utility and its subsidiaries as of June 30, 2018, and its revenues, expenses and changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2018 on our consideration of IGU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of IGU's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IGU's internal control over financial reporting and compliance.

Cook & Haugeberg LLC

November 14, 2018

CONSOLIDATING FINANCIAL STATEMENTS

INTERIOR ALASKA NATURAL GAS UTILITY

CONSOLIDATING STATEMENT OF NET POSITION

For the year ended June 30, 2018

Assets and Deferred Outflows of Resources	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC
Property, plant and equipment			
Property, plant and equipment in service, at cost	$ 14,521,696	$ 3,646,063	$ 2,036,231
Less: accumulated provision for depreciation and amortization	38,729	17,786	6,316
Net property, plant and equipment in service	14,482,967	3,628,277	2,029,915
Gas plant held for future use, at cost	14,697,050		
Construction work in progress	17,680,473		
Net property, plant and equipment	46,860,490	3,628,277	2,029,915
Current assets			
Cash	4,067,535	1,734,759	6,585
Cash - restricted construction funds			
Investments	406,317		
Accounts receivable, net	571,167	18,277	
Accounts receivable - subsidiaries	5,854	540,731	16,491
Other receivable - FNSB contract			
Other receivable - AIDEA agreement	258,663		
Liquefied natural gas inventory	424,109	85,525	22,983
Materials and supplies inventory	294,476		
Deposits and other current assets	127,749	118,832	14,061
Total current assets	6,155,870	2,498,124	60,120
Deferred outflows of resources			
Gas plant acquisition adjustment			
Total assets and deferred outflows of resources	$ 53,016,360	$ 6,126,401	$ 2,090,035
Liabilities and Net Position			
Current liabilities			
Current maturities of long-term debt	$	$ 158,945	$
Accrued wages and burden	111,194	58,106	
Accounts payable	64,988	401,480	102
Accounts payable - subsidiaries	465,742	16,472	80,502
Construction payable	2,902,478		
Other current and accrued liabilities	3,568	3,462	
Total current liabilities	3,547,970	638,465	80,604
Noncurrent liabilities			
Accumulated deferred compensation	406,317		
Long-term debt, less current maturities			
AIDEA term loan	26,617,709		
Equipment loans payable		874,227	
Total noncurrent liabilities	27,024,026	874,227	
Net position			
Net investment in capital assets	20,537,256	2,595,106	2,029,914
Restricted			
Unrestricted	1,907,108	2,018,603	(20,483)
Total net position	22,444,364	4,613,709	2,009,431
Total liabilities and net position	$ 53,016,360	$ 6,126,401	$ 2,090,035

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

Polar LNG, LLC	Acquisition Adjustment and Intercompany Eliminations	Pentex Alaska Natural Gas Company, LLC	Interior Alaska Natural Gas Utility	Pentex Acquisition Adjustment	Interior Alaska Natural Gas Utility (Consolidated)
$	$ 21,030,313	$ 41,234,303	$ 751,274	$	$ 41,985,577
	42,221	105,052	12,533		117,585
	20,988,092	41,129,251	738,741		41,867,992
	2,278,816	16,975,866	22,258,726		39,234,592
		17,680,473	5,969,868		23,650,341
	23,266,908	75,785,590	28,967,335		104,752,925
6,206		5,815,085	444,440		6,259,525
			323,970		323,970
		406,317			406,317
		589,444	2,925		592,369
	(563,076)				
			150,085		150,085
		258,663			258,663
	(94,731)	437,886			437,886
		294,476	159,764		454,240
		260,642			260,642
6,206	(657,807)	8,062,513	1,081,184		9,143,697
	2,154,140	2,154,140		6,818,598	8,972,738
$ 6,206	$ 24,763,241	$ 86,002,243	$ 30,048,519	$ 6,818,598	$ 122,869,360
$	$	$ 158,945	$	$	$ 158,945
		169,300	14,559		183,859
		466,570	116,774		583,344
360	(563,076)				
		2,902,478			2,902,478
		7,030			7,030
360	(563,076)	3,704,323	131,333		3,835,656
		406,317			406,317
		26,617,709	29,346,778	21,208,913	77,173,400
		874,227			874,227
		27,898,253	29,346,778	21,208,913	78,453,944
	25,421,048	50,583,324	729,676	(14,390,315)	36,922,685
			323,970		323,970
5,846	(94,731)	3,816,343	(483,238)		3,333,105
5,846	25,326,317	54,399,667	570,408	(14,390,315)	40,579,760
$ 6,206	$ 24,763,241	$ 86,002,243	$ 30,048,519	$ 6,818,598	$ 122,869,360

INTERIOR ALASKA NATURAL GAS UTILITY

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2018

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC
Operating revenues			
Residential sales	$ 15,605	$	$
Commercial sales	162,055	10,287	
Interruptible sales	109,844		
Commercial sales - subsidiaries		271,775	10,783
FNSB contract revenue			
AIDEA Interior Energy Project funds			
Other operating revenues	16,153		
Total operating revenues	303,657	282,062	10,783
Operating expenses			
Natural gas purchases	220,107	144,833	7,343
Trucking		50,230	
Electricity		34,589	
Gas liquefaction expenses		86,716	
Fairbanks distribution operations	30,934		
Fairbanks distribution maintenance	730		
Fairbanks storage and vaporization operations	6,081		
Fairbanks storage and vaporization maintenance	26,926		
Engineering	9,670		
AET operations and maintenance			796
Talkeetna maintenance		27	
Customer service	2,844		
Administrative and general expenses	49,728	15,962	1,263
Taxes other than income	2,940	1,822	
Interest expense		2,939	
Depreciation	38,729	17,786	6,316
Amortization			
Total operating expenses	388,689	354,904	15,718
Operating loss	(85,032)	(72,842)	(4,935)
Nonoperating revenues (expenses)			
Interest and dividend income	4		
Other income			
Net decrease in fair value of investments	(10,104)		
Nonoperating revenues (expenses) total	(10,100)		
Changes in net position	(95,132)	(72,842)	(4,935)
Net position - beginning of period	22,539,496	4,686,551	2,014,366
Net position - end of period	$ 22,444,364	$ 4,613,709	$ 2,009,431

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

Polar LNG, LLC	Acquisition Adjustment and Intercompany Eliminations	Pentex Alaska Natural Gas Company, LLC	Interior Alaska Natural Gas Utility	Pentex Acquisition Adjustment	Interior Alaska Natural Gas Utility (Consolidated)
$	$	$ 15,605	$	$	$ 15,605
		172,342			172,342
		109,844			109,844
	(282,558)				
			421,988		421,988
			5,072		5,072
		16,153			16,153
	(282,558)	313,944	427,060		741,004
	(238,614)	133,669			133,669
	(15,788)	34,442			34,442
	(2,500)	32,089			32,089
		86,716			86,716
		30,934			30,934
		730			730
	(1,076)	5,005			5,005
		26,926			26,926
		9,670			9,670
		796			796
		27			27
		2,844			2,844
		66,953	642,216		709,169
		4,762	8,747		13,509
		2,939	368		3,307
	42,221	105,052	3,605		108,657
	5,734	5,734			5,734
	(210,023)	549,288	654,936		1,204,224
	(72,535)	(235,344)	(227,876)		(463,220)
		4	739		743
			600		600
		(10,104)			(10,104)
		(10,100)	1,339		(8,761)
	(72,535)	(245,444)	(226,537)		(471,981)
5,846	25,398,852	54,645,111	796,945	(14,390,315)	41,051,741
$ 5,846	$ 25,326,317	$ 54,399,667	$ 570,408	$ (14,390,315)	$ 40,579,760

INTERIOR ALASKA NATURAL GAS UTILITY

CONSOLIDATING STATEMENT OF CASH FLOWS

For the year ended June 30, 2018

Increase (Decrease) in Cash	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC
Cash flows from operating activities			
Cash received from customers	$ 744,084	$ 10,363	$
Cash received from subsidiaries	29,324	670,801	5,803
Cash received from FNSB			
Cash received from AIDEA			
Cash paid to suppliers	(40,467)	(512,502)	(510)
Cash paid to subsidiaries	(676,605)	(9,395)	(19,928)
Cash paid related to employees	(45,824)	(34,079)	
Net cash provided by (used in) operating activities	10,512	125,188	(14,635)
Cash flows from capital and related financing activities			
Principal payments on long-term debt		(9,115)	
Interest payments		(2,939)	
Capitalized engineering and feasibility charges			
Construction work in progress	(72,347)		
Net cash provided by (used in) capital and related financing activities	(72,347)	(12,054)	
Cash flows from investing activities			
Interest and dividends received	4		
Net cash provided by investing activities	4		
Net increase (decrease) in cash	(61,831)	113,134	(14,635)
Cash at beginning of year	4,129,366	1,621,625	21,220
Cash at end of year	$ 4,067,535	$ 1,734,759	$ 6,585

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

Polar LNG, LLC	Acquisition Adjustment and Intercompany Eliminations	Pentex Alaska Natural Gas Company, LLC	Interior Alaska Natural Gas Utility	Interior Alaska Natural Gas Utility (Consolidated)
$	$	$ 754,447	$ 10,309	$ 764,756
	(705,928)			
			377,922	377,922
			342,697	342,697
		(553,479)	(486,861)	(1,040,340)
	705,928			
		(79,903)	(109,552)	(189,455)
		121,065	134,515	255,580
		(9,115)	(842,698)	(851,813)
		(2,939)	(2,233)	(5,172)
			(991,259)	(991,259)
		(72,347)		(72,347)
		(84,401)	(1,836,190)	(1,920,591)
		4		4
		4		4
		36,668	(1,701,675)	(1,665,007)
6,206		5,778,417	2,470,085	8,248,502
$ 6,206	$	$ 5,815,085	$ 768,410	$ 6,583,495

CONSOLIDATING STATEMENT OF CASH FLOWS
(Continued)
For the year ended June 30, 2018

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC
Reconciliation of operating loss to net cash provided by (used in) operating activities			
Operating loss	$ (85,032)	$ (72,842)	$ (4,935)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	38,729	17,786	6,316
Interest income on investments			
Interest payments		2,939	
Other income			
(Increase) decrease in assets			
Accounts receivable, net	452,327	9,421	
Accounts receivable - subsidiaries	19,979	389,681	(4,980)
Contract receivables			
Other receivables			
Liquefied natural gas inventory	(31,208)	18,911	(11,257)
Materials and supplies inventory			
Deposits and other current assets	6,649	386	1,264
Increase (decrease) in liabilities			
Accrued wages and burden	6,813	3,710	
Accounts payable	28,902	(242,293)	(294)
Accounts payable - subsidiaries	(411,891)	7,960	(749)
Accumulated deferred compensation	(10,104)		
Other current and accrued liabilities	(4,652)	(10,471)	
Total adjustments	95,544	198,030	(9,700)
Net cash provided by (used in) operating activities	$ 10,512	$ 125,188	$ (14,635)

Noncash Investing Activities

Fairbanks Natural Gas, LLC (FNG):

FNG had unrealized losses on available for sale securities purchased to offset accumulated deferred compensation liabilities in the amount of $10,100 during the period from June 14, 2018 to June 30, 2018.

For the year ended June 30, 2018, Construction payable included costs capitalized to construction work in process totaling $15,984.

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

Polar LNG, LLC	Acquisition Adjustment and Intercompany Eliminations	Pentex Alaska Natural Gas Company, LLC	Interior Alaska Natural Gas Utility	Interior Alaska Natural Gas Utility (Consolidated)
$	$ (72,535)	$ (235,344)	$ (227,876)	$ (463,220)
	47,955	110,786	3,605	114,391
			739	739
		2,939	368	3,307
			600	600
		461,748	(2,925)	458,823
	(404,680)			
			697	697
			337,625	337,625
	24,580	1,026		1,026
			11,895	11,895
		8,299	16,898	25,197
		10,523	10,329	20,852
		(213,685)	27,323	(186,362)
	404,680			
		(10,104)		(10,104)
		(15,123)	(44,763)	(59,886)
	72,535	356,409	362,391	718,800
$	$	$ 121,065	$ 134,515	$ 255,580

Interior Alaska Natural Gas Utility (IGU):

During the year ended June 30, 2018, IGU reclassified $171,659 of pipe and pipe fittings from construction work in process to material and supplies inventory.

IGU reclassified $22,258,726 of Phase I construction from construction work in process to gas plant held for future use, at cost.

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DESCRIPTION OF ORGANIZATION AND PRINCIPLES OF CONSOLIDATING

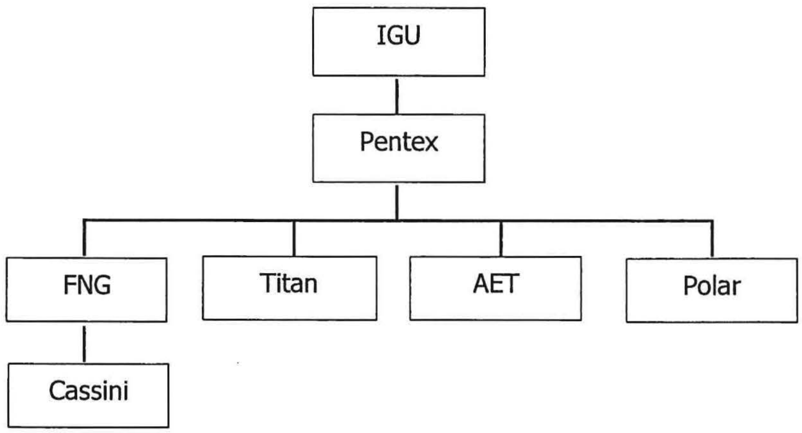
The Interior Alaska Natural Gas Utility, doing business as the Interior Gas Utility (IGU), was formed late in 2012 by the Fairbanks North Star Borough (Borough) in cooperation with the City of Fairbanks and the City of North Pole. The goal of the organization is to lower energy costs for the Borough 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.

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 2020.

On January 25, 2017, IGU and AIDEA entered into the Utility Integration Memorandum of Understanding (MOU). The understanding of the MOU was that both IGU and AIDEA were interested in achieving the goals of the Interior Energy Project by the means of AIDEA desiring to sell its membership interest in Pentex Alaska Natural Gas Company, LLC (Pentex), and IGU desiring to buy AIDEA's membership interest. Both parties also wished to enter into agreements providing for the establishment and financing of an integrated natural gas utility. The result of the MOU was the development of the LLC Membership Purchase and Sale Agreement (PSA) and Financing Agreement (FA). On December 13, 2017, IGU entered into the PSA and FA and on June 13, 2018 executed the aforementioned PSA and FA. Upon execution, IGU acquired all of AIDEA's right, title and interest in Pentex for $61,463,709. The acquisition value of the net position acquired as of the acquisition date was $54,645,911. The consolidating financial statements for the year ended June 30, 2018 reflect the assets purchased, and the operations of the Pentex companies for the period from June 14, 2018 to June 30, 2018. Beginning balances presented in the notes to the consolidating financial statements reflect operations of IGU as a stand alone entity prior to the purchase of Pentex.

The consolidating financial statements of IGU, a discretely presented component unit of the Borough, include the accounts of Pentex, a business holding entity that includes the accounts of Fairbanks Natural Gas, LLC (FNG), which operates a natural gas distribution utility for the residents and businesses of Fairbanks, Alaska; Titan Alaska LNG, LLC (Titan), which operates a natural gas liquefaction plant in Point Mackenzie, Alaska; Arctic Energy Transportation, LLC (AET), a liquefied natural gas fuel provider for the transportation industry with locations in Fairbanks and Houston, Alaska; and Polar LNG, LLC (Polar), the project lead for an abandoned project on the North Slope located in the vicinity of Dead Horse, Alaska. The four companies are owned and managed by Pentex and IGU owns and manages Pentex. All material intercompany balances and transactions are eliminated in the consolidating financial statements, which are organized as follows:



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 http://www.co.fairbanks.ak.us/fs/Pages/Comprehensive-Annual-Financial-Reports.aspx.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Regulation - The accounting records of the company conform to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission for natural gas companies subject to provisions of the Natural Gas Act. FNG was regulated by the Regulatory Commission of Alaska (RCA) through September 30, 2015. IGU is exempt from economic regulation by the RCA, though is still non-economically regulated by the RCA.

Income Taxes - Pentex was organized in the State of Delaware as a limited liability company electing to be treated as a partnership, whereby the taxable income or losses of the company was passed through to its members based on the members' agreement. The purchase of membership interest by AIDEA changed Pentex's filing status effective October 1, 2015 to a single member disregarded entity exempt from income taxes. With IGU ownership this status is still in effect.

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

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

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

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

Investments - Investments are reported at fair value (generally based on quoted market prices). IGU has not adopted formal investment policies establishing limits on investment choices to manage credit risk or limits on investment maturities for managing the company's exposure to fair value losses arising from increasing interest rates (interest rate risk).

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

Accounts receivable and other receivables - Accounts receivable and other receivables are recorded at the amount the company expects to collect. Management determines the allowance for doubtful accounts by identifying troubled accounts, using historical experience applied to an aging of the accounts and regularly evaluating the individual accounts. Accounts receivable are written off when deemed uncollectible and recoveries of previously written off accounts are recorded as revenue when received.

Inventories - Inventories of liquefied natural gas and materials and supplies are recorded at the lower of average cost or market. Cost is determined by the first in, first out method.

Accumulated Provision for Depreciation and Amortization - Provision has been made for depreciation and amortization on a straight-line basis using the following ranges of annual rates:

Distribution, storage and vaporization	2 - 4%
LNG production equipment	2 - 4%
General plant	
Structures and improvements	2 - 15%
Transportation and power-operated equipment	2 - 17%
Furniture and office equipment	6 - 28%

Deferred Outflows of Resources - Deferred outflows of resources represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The company only has one item that qualifies for reporting in this category, which is the deferred amount representing the gas plant acquisition adjustments reported in the statement of net position. This deferred outflow results from the difference between the cost to purchase the ownership interest in Pentex and the net book value of the underlying assets of the company at the purchase date. This amount is deferred and amortized over the life of the associated assets purchased.

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

Environmental Issues - IGU's environmental issues policy is to record a liability when the likelihood of responsibility for pollution remediation activities such as site assessments and cleanup is probable and the costs are reasonably estimable. At June 30, 2018, there were no environmental issues meeting both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability.

Operating Revenues and Expenses - IGU considers all revenues and expenses except investment income, gains and losses from dispositions of property, plant and equipment and materials and supplies inventory, other income relating to line hit repairs, and extraordinary items to be part of its ongoing operations and classifies them as operating in the statement of revenues, expenses, and changes in net position.

Reclassifications - Certain reclassifications, which have no effect on changes in net position, have been made to prior year data to conform it to current classifications.

Subsequent Events - The company has evaluated subsequent events through November 14, 2018, the date on which the financial statements were available to be issued.

PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment activities were as follows for the fiscal year ended June 30, 2018:

	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018
Nondepreciable components of property, plant and equipment				
Land	$	$ 373,700	$	$ 373,700
Intangible plant - CPCN	729,676			729,676
Gas plant held for future use, at cost		39,234,592		39,234,592
Construction work in progress	27,580,345	18,491,411	(22,421,415)	23,650,341
Total nondepreciable components of property, plant and equipment	28,310,021	58,099,703	(22,421,415)	63,988,309
Depreciable components of property, plant and equipment				
Distribution, storage and vaporization		27,972,398		27,972,398
LNG production equipment		7,907,020		7,907,020
General plant				
Structures and improvements		3,019,163		3,019,163
Transportation and power-operated equipment		1,925,753		1,925,753
Furniture and office equipment	21,598	36,269		57,867
Total depreciable components of property, plant and equipment	21,598	40,860,603		40,882,201
Less: accumulated provision for depreciation				
Distribution, storage and vaporization		(60,222)		(60,222)
LNG production equipment		(32,563)		(32,563)
General plant				
Structures and improvements		(6,316)		(6,316)
Transportation and power-operated equipment		(4,600)		(4,600)
Furniture and office equipment	(8,928)	(4,956)		(13,884)
Total accumulated provision for depreciation and amortization	(8,928)	(108,657)		(117,585)
Total depreciable components of property, plant and equipment, net	12,670	40,751,946		40,764,616
Net property, plant and equipment	$ 28,322,691	$ 98,851,649	$ (22,421,415)	$ 104,752,925

Depreciation expense totaled $108,657 for property, plant and equipment for the fiscal year ended June 30, 2018.

DEFERRED OUTFLOWS OF RESOURCES

The deferred outflows of resources at June 30, 2018 consisted of a $2,154,140 gas plant acquisition adjustment which resulted from the purchase of Pentex by AIDEA and a $6,818,598 gas plant acquisition adjustment resulting from the purchase of Pentex by IGU, including AIDEA's interest in a North Slope pad located in the vicinity of Dead Horse, Alaska. At the acquisition date, AIDEA was not authorized to transfer the asset, therefore the deferred outflow was not amortized as it is expected to be converted to a fixed asset at the time AIDEA transfers the pad to IGU. The gas plant acquisition adjustment which resulted from the purchase of Pentex by AIDEA will be recognized as amortization expense as follows:

Year ending June 30:	
2019	$ 121,421
2020	121,421
2021	121,421
2022	121,421
2023	121,421
2024 - 2028	607,103
2029 - 2033	607,103
2034 - 2038	281,396
2039 - 2043	14,909
2044 - 2048	14,909
2049 - 2053	14,909
2054 - 2056	6,706
	$ 2,154,140

Amortization expense for the year ended June 30, 2018 was $5,734.

FAIR VALUE OF FINANCIAL INSTRUMENTS

FNG had a recurring fair value measurement as of June 30, 2018 consisting of a S&P 500 rated mutual fund (equity) investment account at U.S. Bancorp totaling $406,317 (Level 1 inputs).

ACCOUNTS RECEIVABLE

The accounts receivable balances as of June 30, 2018, were as follows:

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Interior Alaska Natural Gas Utility	Interior Alaska Natural Gas Utility (Consolidated)
Trade	$ 646,167	$ 18,277	$ 2,925	$ 667,369
Less: allowance for doubtful accounts	75,000			75,000
	$ 571,167	$ 18,277	$ 2,925	$ 592,369

At June 30, 2018 all natural gas sales were billed.

OTHER RECEIVABLE

The other receivable balances as of June 30, 2018, were as follows:

	Fairbanks Natural Gas, LLC	Interior Alaska Natural Gas Utility	Interior Alaska Natural Gas Utility (Consolidated)
AIDEA reimbursement agreement	$ 258,663	$	$ 258,663
FNSB contract		150,085	150,085
	$ 258,663	$ 150,085	$ 408,748

INVENTORIES

Inventories consisted of the following on June 30, 2018:

	Liquified Natural Gas	Materials and Supplies Inventory	Total
Fairbanks Natural Gas, LLC	$ 424,109	$ 294,476	$ 718,585
Titan Alaska LNG, LLC	85,525		85,525
Arctic Energy Transportation, LLC	22,983		22,983
Eliminations	(94,731)		(94,731)
Pentex Alaska Natural Gas Company, LLC	437,886	294,476	732,362
Interior Alaska Natural Gas Utility		159,764	159,764
Interior Alaska Natural Gas Utility (Consolidated)	$ 437,886	$ 454,240	$ 892,126

TRANSACTIONS AMONG SUBSIDIARIES

Fairbanks Natural Gas, LLC purchases liquefied natural gas from Titan Alaska LNG, LLC for regasification and distribution to FNG's customers. FNG also purchases boil off gas from Arctic Energy Transportation, LLC. AET purchases liquefied natural gas from Titan for resale to the transportation industry. Titan purchases liquefied natural gas from AET for use in its LNG tractors used to transport liquefied natural gas.

Gas purchases among subsidiaries for the year ended June 30, 2018 were as follows:

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC	Total
LNG purchased from Titan	$ 252,595	$	$ 19,180	$ 271,775
Natural gas purchased from AET	2,773	8,010		10,783
	$ 255,368	$ 8,010	$ 19,180	$ 282,558

Cash advances are made between the companies throughout the year during the normal course of business.

Included in the statement of net position were the following related party balances at June 30, 2018:

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC	Polar LNG, LLC	Total
Accounts receivable:					
FNG	$	$ 461,050	$ 4,692	$	$ 465,742
Titan	4,673		11,799		16,472
AET	821	79,681			80,502
Polar	360				360
	$ 5,854	$ 540,731	$ 16,491	$	$ 563,076
Accounts payable:					
FNG	$	$ 4,673	$ 821	$ 360	$ 5,854
Titan	461,050		79,681		540,731
AET	4,692	11,799			16,491
	$ 465,742	$ 16,472	$ 80,502	$ 360	$ 563,076

All related party balances and transactions are eliminated in the consolidating financial statements at June 30, 2018.

LONG-TERM DEBT - AIDEA LINE 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 original terms of the line of credit agreement included a per annum interest rate of zero percent (0%) until January 1, 2020, at which time the balance outstanding was anticipated to be converted into a long-term note. The balance outstanding on the line of credit was converted to a term loan on June 13, 2018 with the closing of the Financing Agreement with AIDEA.

FNG has a $15,000,000 line of credit from AIDEA dated May 19, 2014 to be used for the expansion of FNG's distribution system. This line of credit was amended on January 1, 2018. The amendment increased the line of credit to $60,500,000. The increase of the line of credit is to be used for the construction of the 5.25 million gallon storage system located in Fairbanks, Alaska. The amended agreement included a per annum stated interest rate for advances under the line of credit of zero percent (0%) until January 1, 2020, at which time the balance outstanding was anticipated to be converted into a long-term note. The balance was converted to a term loan on June 13, 2018 with the closing of the Financing Agreement with AIDEA.

Line of credit transactions consisted of the following for the year ending June 30, 2018:

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018
Interior Alaska Natural Gas Utility	$ 29,689,476	$	$ 29,689,476	$
Fairbanks Natural Gas, LLC		26,617,709	26,617,709	
	$ 29,689,476	$ 26,617,709	$ 56,307,185	$

LONG-TERM DEBT - FNSB LINE OF CREDIT

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 rate 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. During the year, the balance and accrued interest was repaid to the Borough. There was no outstanding balance at June 30, 2018.

LONG-TERM DEBT - AIDEA TERM LOAN AND EQUIPMENT LOANS PAYABLE

Equipment loans payable consisted of the following at June 30, 2018:

	Balance at June 30, 2017	Additions	Principal Payments	Balance at June 30, 2018	Amounts due within one year
AIDEA 0.25 percent term loan payable	$	$ 77,173,400	$	$ 77,173,400	$
Wells Fargo Equipment Finance, Inc. 4.15 percent note payable		255,090		255,090	46,880
Wells Fargo Equipment Finance, Inc. 4.48 percent note payable		787,196	(9,114)	778,082	112,065
	$	$ 78,215,686	$ (9,114)	$ 78,206,572	$ 158,945

The 0.25 percent term loan payable to AIDEA is part of the FA and has a borrowing limit of $125,000,000. The term loan includes a payment deferral beginning June 13, 2018 and extending for a fifteen year period, and the loan accrues no interest during the deferral period. If it is determined after the deferral period ends that sufficient demand growth has not developed, the deferral period will be extended for an additional five year period with interest only payments due, called the demand deferral period. The term loan shall be paid in 420 monthly installments commencing on the first day of the first calendar month after the expiration of the deferral period or the demand deferral period, whichever is later. As of June 30, 2018, management anticipates that the development of sufficient demand growth is unlikely. The term loan is secured by all of IGU's revenues and assets.

The 4.15 percent note payable by Titan to Wells Fargo Equipment Finance, Inc. is payable in monthly installments of $4,715 including interest and becomes due on June 7, 2023. The note is secured by one 2015 Heil LNG transport trailer.

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

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

	Principal	Interest	Total
Titan Alaska LNG, LLC:			
2019	$ 158,945	$ 42,277	$ 201,222
2020	166,053	35,169	201,222
2021	173,479	27,743	201,222
2022	181,237	19,984	201,221
2023	189,344	11,878	201,222
2024	140,142	4,498	144,640
2025	23,972	134	24,106
	1,033,172	141,683	1,174,855
Interior Alaska Natural Gas Utility:			
2034	$	$ 186,370	$ 186,370
2035		192,933	192,933
2036		192,933	192,933
2037		192,933	192,933
2038		192,933	192,933
2039	2,480,294	190,093	2,670,387
2040-68	74,693,106	2,748,118	77,441,224
	77,173,400	3,896,313	81,069,713
	$ 78,206,572	$ 4,037,996	$ 82,244,568

OPERATING LEASES

Operating lease terms are outlined as follows:

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, which required monthly payments of $200, expired on March 10, 2017. IGU continues to lease the land on a month-to-month basis at the same monthly rate.

FNG leases office facilities in Fairbanks, Alaska under an operating lease. The lease became effective June 1, 2016 and expires on May 31, 2019. Monthly payments are $10,253, which consists of the base lease payment of $9,216 and an additional lease payment of $1,037. The additional lease payment is for property taxes and insurance and is subject to a "true-up" annually based on actual costs. The lease expense for the fiscal year ended June 30, 2018 was $5,810.

AET in 2012 exercised an option to lease land from Fisher's Fuel, Inc. The initial lease required annual payments starting at $6,000 in the first year and increasing annually by 1.5 percent in each subsequent year for five years with two automatic five-year extensions. The lease was renewed for an additional five years in June 2017. Lease payments charged to income totaled $305 for the fiscal year ended June 30, 2018.

The following is a schedule of future minimum lease payments for operating leases as of June 30, 2018:

	Fairbanks Natural Gas, LLC	Arctic Energy Transportation, LLC	Interior Alaska Natural Gas Company (Consolidated)
2019	$ 112,783	$ 6,561	$ 119,344
2020		6,659	6,659
2021		6,759	6,759
2022		6,860	6,860
2023		6,963	6,963
	$ 112,783	$ 33,802	$ 146,585

DEFERRED COMPENSATION LIABILITY

FNG maintains a deferred compensation plan for the president of the company (the executive). Under the plan, the executive is entitled to have a fixed annual benefit amount of $50,000 credited to the deferred compensation account. Gains and losses on amounts voluntarily set aside by management to offset deferred compensation obligations are recorded as adjustments to the offsetting investment and the liability balance. Normal vesting occurs after two years from the date of the annual award. Annual awards prior to June 14, 2018 credited to the executive's deferred compensation account became fully vested, the awards preceding the closing date of IGU's acquisition of the membership interests of Pentex Alaska Natural Gas, Company, LLC. The plan is unfunded; therefore, benefits are paid from the general assets of the company and are not accumulated via a trust or equivalent arrangement. The total benefit amount accrued was $406,317 at June 30, 2018.

CONSOLIDATED NET POSITION

Consolidated net position of IGU consisted of the following at June 30, 2018:

Net investment in capital assets	June 30, 2018
Total capital assets	$ 104,752,925
Gas plant acquisition adjustment	8,972,738
Materials and supplies inventory	454,240
AIDEA term loan	(77,173,400)
Noncapitalized AIDEA funds	949,354
Equipment loans payable (total long-term and current)	(1,033,172)
Total net investment in capital assets	36,922,685
Restricted	323,970
Unrestricted	3,333,105
Net position	$ 40,579,760

NATURAL GAS PURCHASE AND TRANSPORTATION CONTRACTS

In January 2014 FNG entered into a "Firm LNG Sale and Purchase Agreement" with Titan. The agreement, which was effective January 1, 2014, expired March 31, 2018. There was no written notice of non-renewal by either party and the agreement was automatically renewed for an additional one year term, effective April 1, 2018.

In July 2013 Titan entered into a "Gas Sale and Purchase Agreement" with Hilcorp Alaska, LLC to purchase natural gas. The agreement, which was effective July 1, 2013, expired March 31, 2018.

In August 2017 Titan entered into a "Gas Sale and Purchase Agreement" with Hilcorp Alaska, LLC to purchase natural gas. The agreement, which was effective August 1, 2017, expires March 31, 2021.

In August 2013 Titan entered into a "Firm Transportation Service Agreement" with Enstar Natural Gas Company for transportation of natural gas from the Cook Inlet area to Point Mackenzie. The agreement, which was effective beginning September 1, 2013, expires July 31, 2018 then remains in effect year to year or terminates upon twelve month written notice by either party.

In March 2015 Titan entered into an "LNG Transportation Agreement" with Sourdough Express, Incorporated for transportation of LNG. The agreement had an initial term of March 11, 2015 until June 30, 2016 and will automatically renew for additional one year periods until terminated by either party.

In March 2015 Titan entered into a "Trailer Interchange Agreement" with Weaver Bros., Inc. for transportation services. The agreement, which was effective March 11, 2015, will remain in effect until terminated by either party.

In November 2015 Titan entered into an "LNG Transportation Agreement" with Big State Logistics, Inc. for transportation of LNG. The agreement had an initial term of November 1, 2015 until June 30, 2016 and will automatically renew for additional one year periods from July to June until terminated by either party.

SERVICE CONTRACTS

IGU has retained the following companies to provide engineering and related utility build out planning under service contracts. Contract phases, amounts and period completed as of June 30, 2018:

	Remaining Commitments	2018 Expenditures
Stantec Consulting Services, Inc.,		
Task orders authorized	$ 16,327	$ 639,002
PDC, Inc. Engineers		
North Pole storage and distribution design	39,883	102,168
Central Environmental, Inc.		
Construction - Phase 1 zone A		47,500
Utility Technologies, Inc.		
Construction - Phase 1 zone B		28,498
Cook & Haugeberg, LLC		
Financial statement audit	23,099	3,201
RJG, A Professional Corporation		
Bookkeeping services	2,395	51,926
	$ 81,704	$ 872,295

RETIREMENT 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 contributed 5% of the general manager's salary to the plan and contributions are 100% vested when accrued. Employer contributions were paid with each payroll. Employer contributions for the year ended June 30, 2018 were $5,285.

FNG and Titan maintain separate 401(k) defined contribution retirement plans for all eligible employees of FNG and Titan. Under each plan, participants may defer a portion of their annual compensation. FNG and Titan provide matching contributions of up to 4 percent of contributions made by eligible employees. For the period ended June 30, 2018, FNG's matching contributions totaled $796 and Titan's matching contributions totaled $441.

CONCENTRATIONS AND CREDIT RISK

Titan distributes natural gas predominantly to FNG for sale to customers in Fairbanks, Alaska. Accordingly, the companies are affected by the economic conditions in the local economy.

Custodial Credit Risk Related to Deposits - For deposits, Custodial Credit Risk is the risk that, in the event of the failure of the banking institution, IGU will not be able to recover the value of its deposits that are in the possession of an outside party. IGU maintains its cash balances at two financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. IGU entered into a Securities Custodial Agreement with Mt. McKinley Bank 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. Of bank balances totaling $6,788,737, the uninsured and uncollateralized balance was $2,288,737 at June 30, 2018. IGU believes it is not exposed to any significant credit risk on cash and cash equivalents.

RELATED PARTIES

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)
Contract costs in fiscal year 2018		(421,988)			(421,988)
Total contract costs incurred	(208,309)	(1,350,646)	(729,676)	(102,188)	(2,390,819)
Allocated to future operating expense	(110,691)		(5,524)	(186,312)	(302,527)
	(319,000)	(1,350,646)	(735,200)	(288,500)	(2,693,346)
Remaining on contract at June 30, 2018	$	304,575			304,575

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

Fairbanks Natural Gas, LLC (FNG), Titan Alaska LNG, LLC (Titan), Arctic Energy Transportation, LLC (AET), and Polar LNG, LLC (Polar) are wholly owned companies of Pentex Alaska Natural Gas Company, LLC (Pentex), which is wholly owned by IGU.

FNG is a certificated public utility holding Certificate of Public Convenience and Necessity number 514 issued by the Regulatory Commission of Alaska for the area located in Fairbanks, Alaska. The sole purpose of FNG is to distribute natural gas through its gas distribution system to the residents and businesses of Fairbanks. In addition, FNG formed Cassini LNG Storage, LLC to develop a large LNG storage facility in Fairbanks, Alaska. FNG is Cassini's sole LLC member.

Titan is a producer of liquefied natural gas (LNG) primarily dedicated to supplying Fairbanks Natural Gas, LLC with LNG.

AET is an LNG fuel service company with locations in Fairbanks, Alaska and Houston, Alaska. Its purpose is to introduce LNG to the motor fuel market in the state of Alaska. AET continues to run a pilot program to determine the feasibility of marketing natural gas motor fuels.

Polar LNG, LLC was developing an LNG facility on the North Slope of Alaska. In mid 2014 Polar ceased development of the project and began the process of dissolving past development efforts. In 2015 all development efforts that were not liquidated through sale were written off.

Cassini, a wholly owned subsidiary of FNG, was created for the purpose of designing, constructing and operating a large LNG storage tank to be located in Fairbanks, Alaska. The purpose of the storage tank is to service FNG's current and future customers. Cassini, which to date has no assets or liabilities, has recently restarted its efforts of designing and constructing the LNG storage.

SUBSEQUENT EVENTS

FNG was notified by the Alaska Labor Relations Agency that on August 10, 2018, the International Brotherhood of Electrical Workers (IBEW) Local 1547 filed a petition to certify itself as the collective bargaining representative of all full-time and regular part-time natural gas operator leads. Excluded from the representation are all other employees.

RECENT PRONOUNCEMENTS

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of Construction (GASB 89) was issued by the GASB in June of 2018. The objectives of GASB 89 are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. GASB 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. GASB 89 is effective for the fiscal year ending June 30, 2021. The company has not implemented GASB 89 and is currently evaluating the impact on future financial statements.

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Debt Borrowings and Direct Placements (GASB 88) was issued by the GASB in April 2018. The objective of GASB 88 is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to clarify which liabilities governments should include when disclosing information related to debt. GASB 88 requires that additional essential information related to debt be disclosed in notes to financial statements, and that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. GASB 88 is effective for the fiscal year ending June 30, 2019. The company has not implemented GASB 88 and is currently evaluating the impact on future financial statements.

GASB Statement No. 87, Leases (GASB 87) was issued by the GASB in June 2017. The objective of GASB 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases, based on the principle that leases are financings of the right to use an underlying asset. GASB 87 requires lessees to recognize a lease liability and an intangible right-to-use asset, and requires a lessor to recognize a lease receivable and a deferred inflow of resources. GASB 87 is effective for the fiscal year ending June 30, 2021. The company has not implemented GASB 87 and is currently evaluating the impact on future financial statements.

GASB Statement No. 84, Fiduciary Activities (GASB 84) was issued by the GASB in January 2017. The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 establishes criteria for identifying fiduciary activities of the governmental entity with the focus on whether a government is controlling the assets of the fiduciary activity, and on the beneficiaries with whom a fiduciary relationship exists. A fiduciary activity meeting the criteria set forth in GASB 84 should be reported in a fiduciary fund, and a liability of the fiduciary fund should be recognized when an event has occurred that compels a government to disburse fiduciary resources. GASB 84 is effective for the fiscal year ending June 30, 2020. The company has not implemented GASB 84 and is currently evaluating the impact on future financial statements.

SUPPLEMENTAL REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Interior Alaska Natural Gas Utility and subsidiaries

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 consolidating financial statements of Interior Alaska Natural Gas Utility and its subsidiaries (IGU), a discretely presented component unit of the Fairbanks North Star Borough (Borough), as of and for the year ended June 30, 2018, and the related notes to the consolidating financial statements, which collectively comprise IGU's consolidating financial statements, and have issued our report thereon dated November 14, 2018.

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.

Cooke & Haugeberg LLC

Certified Public Accountants

Fairbanks, Alaska
November 14, 2018