



Cook & Haugeberg LLC
CERTIFIED PUBLIC ACCOUNTANTS

INTERIOR ALASKA NATURAL GAS UTILITY

LETTER TO THE BOARD OF DIRECTORS

September 27, 2019



Cook & Haugeberg LLC

CERTIFIED PUBLIC ACCOUNTANTS

September 27, 2019

Board of Directors
Interior Alaska Natural Gas Utility

We have audited the consolidating financial statements of Interior Alaska Natural Gas Utility (IGU), a component unit of the Fairbanks North Star Borough, as of and for the year ended June 30, 2019, and have issued our report thereon dated September 27, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated July 22, 2019. Professional standards also require that we communicate to you the following information relating to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated July 22, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the consolidating financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the consolidating financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of IGU. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether IGU's consolidating financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of IGU and its environment, including internal control, sufficient to assess the risks of material misstatement of the consolidating financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws

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
Senior Consultants:

Kara Moore
James F. Dieringer, Jr.

Kathleen A.R. Thompson
Michael T. Cook

or governmental regulations that are attributable to IGU or to acts by management or employees acting on behalf of IGU. We have communicated our significant findings as a result of the audit. We have also communicated any internal control related matters that are required to be communicated under professional standards.

Kara Moore is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by IGU are described in the notes to the consolidating financial statements. No new accounting policies were adopted and the application of existing IGU accounting policies was not changed during the year ended June 30, 2019. We noted no transactions entered into by IGU during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the consolidating financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the consolidating financial statements were:

- Management provides for an allowance for doubtful accounts for FNG (a wholly owned subsidiary) based on an analysis of troubled accounts, using historical experience applied to an aging of the accounts and regularly evaluating the individual accounts.
- The allocation to the underlying assets of deferred outflows resulting from the cost above book basis of the purchase price of Pentex (a wholly owned subsidiary) paid by AIDEA in 2015 and subsequently by IGU in June of 2018 takes into consideration management's estimate of future obsolescence of those assets.

We evaluated the key factors and assumptions used to develop these estimates in determining they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the consolidating financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to IGU's consolidating financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management that are included in the management representation letter dated September 27, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to IGU's consolidating financial statements or a determination of the type of auditor's opinion that may be expressed on those consolidating statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as IGU's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis which is required supplementary information (RSI) that supplements the consolidating financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the members of Interior Alaska Natural Gas Utility Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Cook + Haugeberg LLC

Certified Public Accountants



Cook & Haugeberg LLC
CERTIFIED PUBLIC ACCOUNTANTS

INTERIOR ALASKA NATURAL GAS UTILITY

CONSOLIDATING FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

and

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

INTERIOR ALASKA NATURAL GAS UTILITY
CONSOLIDATING FINANCIAL STATEMENTS

For the year ended June 30, 2019

TABLE OF CONTENTS

	<u>Page</u>
Management's Discussion and Analysis	iii
Report of Independent Certified Public Accountants	1
Consolidating Financial Statements	
Consolidating Statement of Net Position	4
Consolidating Statement of Revenues, Expenses and Changes in Net Position	6
Consolidating Statement of Cash Flows	8
Notes to Consolidating Financial Statements	13
Supplemental Report Required by <i>Government Auditing Standards</i>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29

This Page Intentionally Left Blank

INTERIOR ALASKA NATURAL GAS UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2019

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. The comparative prior period covered is July 1, 2017 through June 30, 2018. The consolidating financial statements for the fiscal year ended June 30, 2019 represent the first complete year of ownership of Pentex for IGU. In the comparative prior period, IGU acquired Pentex and its subsidiaries, effective at close of business on June 13, 2018. As such, the fiscal year ended June 30, 2018 reflects the assets purchased, and the operations of the Pentex companies for the period from June 14, 2018 to June 30, 2018. Therefore, this analysis reflects variances that normally do not exist. The operating revenues and expenses, net nonoperating revenues (expenses) and changes in net position for the period July 1, 2018 to June 30, 2019 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 907 Terminal Street, 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, 2018 to June 30, 2019. 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.

INTERIOR ALASKA NATURAL GAS UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
For the year ended June 30, 2019

Financial Highlights

IGU's assets and deferred outflows of resources exceeded its liabilities at June 30, 2019 by \$39.7 million. June 30, 2019 unrestricted net position was \$6.5 million. This amount was unrestricted, and thus, available for future financial needs.

Financial Analysis

Following are IGU's total assets and deferred outflows of resources, liabilities and net position at June 30, 2019 and June 30, 2018:

	June 30, 2019	June 30, 2018	Increase (Decrease)
Current assets	\$ 8,194,811	\$ 9,143,697	\$ (948,886)
Property, plant and equipment	131,002,881	104,752,925	26,249,956
Total assets	139,197,692	113,896,622	25,301,070
Deferred outflows of resources	8,510,388	8,972,738	(462,350)
Total assets and deferred outflows of resources	<u>\$ 147,708,080</u>	<u>\$ 122,869,360</u>	<u>\$ 24,838,720</u>
Current liabilities	\$ 2,798,190	\$ 3,835,656	\$ (1,037,466)
Noncurrent liabilities	105,215,358	78,453,944	26,761,414
Total liabilities	108,013,548	82,289,600	25,723,948
Net investment in capital assets	33,210,828	36,922,685	(3,711,857)
Restricted		323,970	(323,970)
Unrestricted	6,483,704	3,333,105	3,150,599
Total net position	<u>39,694,532</u>	<u>40,579,760</u>	<u>(885,228)</u>
Total liabilities and net position	<u>\$ 147,708,080</u>	<u>\$ 122,869,360</u>	<u>\$ 24,838,720</u>

Current assets were \$949 thousand lower at June 30, 2019 compared to June 30, 2018 as outlined below:

	June 30, 2019	June 30, 2018	Increase (Decrease)
Cash	\$ 5,953,432	\$ 6,259,525	\$ (306,093)
Cash - restricted construction funds		323,970	(323,970)
Investments	487,906	406,317	81,589
Accounts receivable, net allowance for doubtful accounts (\$75,000, 2019 and 2018)	507,254	592,369	(85,115)
Other receivable - FNSB contract		150,085	(150,085)
Other receivable - AIDEA agreement		258,663	(258,663)
Liquefied natural gas inventory	399,664	437,886	(38,222)
Materials and supplies inventory	500,461	454,240	46,221
Deposits and other current assets	346,094	260,642	85,452
Total current assets	<u>\$ 8,194,811</u>	<u>\$ 9,143,697</u>	<u>\$ (948,886)</u>

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2019

- **Cash** balances were \$306 thousand lower at June 30, 2019 compared to June 30, 2018 largely as a result of construction expenditure loan reimbursements lagging. The following schedule details the lagging loan proceeds.

	IGU Consolidated Totals
Beginning construction payables (7/1/2018)	\$ 2,902,478
Total FY19 construction expenditures	27,645,215
Less: Ending construction payables	<u>(1,909,397)</u>
Total cash disbursed/used (IEP projects only)	28,638,296
Total loan proceeds received (as of 6/30/2019)	<u>26,845,877</u>
Expenditures not yet funded by loan proceeds	<u><u>1,792,419</u></u>

- **Restricted cash** decreased \$324 thousand due to advance line of credit funds from AIDEA in FY18 that were expended as of June 30, 2019. The funds were restricted to distribution expansion activities and were not available for normal operations of the Utility.
- **Investments** increased \$82 thousand due to the current year contribution to the deferred compensation account of \$50 thousand and \$32 thousand of realized gains of the deferred compensation account.
- **Accounts receivable, net** decreased \$85 thousand due to lower gas sales in June 2019 than the previous year. The accounts receivable balance represents the trade accounts for the customers of FNG.
- **Other receivable - FNSB contract** decreased \$150 thousand due to the service contract with the Borough being completed during the year and all receipts were received.
- **Other receivable - AIDEA agreement** decreased \$258 thousand due to all reimbursement agreements being complete and all receipts being collected.
- **Liquefied natural gas (LNG) inventory** decreased \$38 thousand. No significant activity caused the variance.
- **Materials and supplies inventory** increased \$46 thousand primarily due to the replenishment of meter and pipe parts inventory to sufficient levels.
- **Deposits and other current assets** increased \$85 thousand primarily due to increased prepaid insurance costs. Most of the liability insurance policies were reviewed and adjusted during the renewal period to adequately provide the required coverages.

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2019

Property, plant and equipment balances were \$26.2 million higher at June 30, 2019 compared to June 30, 2018 as outlined below:

	June 30, 2019	June 30, 2018	Increase (Decrease)
Property, plant and equipment in service, at cost	\$ 42,529,594	\$ 41,985,577	\$ 544,017
Less: accumulated provision for depreciation and amortization	<u>2,327,727</u>	<u>117,585</u>	<u>2,210,142</u>
Net property, plant and equipment in service	40,201,867	41,867,992	(1,666,125)
Gas plant held for future use, at cost	39,234,592	39,234,592	
Construction work in progress	<u>51,566,422</u>	<u>23,650,341</u>	<u>27,916,081</u>
Total net property, plant and equipment	<u>\$ 131,002,881</u>	<u>\$ 104,752,925</u>	<u>\$ 26,249,956</u>

- **Property, plant and equipment in service, at cost** increased \$544 thousand due to planned capital additions and asset refreshment activities.
- **Gas plant held for future use, at cost** had no change in the current year.
- **Construction work in progress (CWIP)** increased \$27.9 million due to the continued construction activities on the 5.25 million gallon storage facility located in Fairbanks, AK, the North Pole storage facility located in North Pole, AK, the Point Mackenzie liquefaction facility located in the vicinity of Big Lake, AK and other small distribution projects.

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

Current liabilities were \$1.0 million lower at June 30, 2019 compared to June 30, 2018 as outlined below:

	June 30, 2019	June 30, 2018	Increase (Decrease)
Current maturities of long-term debt	\$ 166,053	\$ 158,945	\$ 7,108
Accrued wages and burden	212,838	183,859	28,979
Accounts payable	491,926	583,344	(91,418)
Construction payable	1,909,397	2,902,478	(993,081)
Other current and accrued liabilities	<u>17,976</u>	<u>7,030</u>	<u>10,946</u>
Total current liabilities	<u>\$ 2,798,190</u>	<u>\$ 3,835,656</u>	<u>\$ (1,037,466)</u>

- **Current maturities of long-term debt** increased \$7 thousand. No significant activity caused this variance.
- **Accrued wages and burden** increased \$29 thousand. No significant activity caused this variance.
- **Accounts payable** decreased \$91 thousand. No significant activity caused this variance.

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2019

- **Construction payable** decreased \$993 thousand. The payable is related to the construction activities of the previously listed projects in the construction work in progress note.
- **Other current and accrued liabilities** increased \$11 thousand. No significant activity caused this variance.

Noncurrent liabilities were \$26.8 million higher at June 30, 2019 compared to June 30, 2018 as outlined below:

	June 30, 2019	June 30, 2018	Increase (Decrease)
Accumulated deferred compensation	\$ 487,906	\$ 406,317	\$ 81,589
Long-term debt, less current maturities			
AIDEA term loan	104,019,278	77,173,400	26,845,878
Equipment loans payable	708,174	874,227	(166,053)
Total noncurrent liabilities	\$ 105,215,358	\$ 78,453,944	\$ 26,761,414

- **Accumulated deferred compensation** increased \$82 thousand due to the current year contribution to the deferred compensation account of \$50 thousand and \$32 thousand of realized gains of the deferred compensation account.
- **AIDEA term loan** increased \$26.8 million. The loan proceeds were used in the continued construction activities related to the 5.25 million gallon storage facility, the North Pole storage facility, and the Point Mackenzie liquefaction facility.
- **Equipment loans payable** decreased \$166 thousand due to the scheduled payments on the loans. The equipment loans are related to liquified natural gas (LNG) transport trailers operated by Titan.

Total net position decreased \$885 thousand during the period ended June 30, 2019 as outlined below:

Beginning net position (July 1, 2018)	\$ 40,579,760
Net change resulting from operating and nonoperating activities	(885,228)
Ending net position (June 30, 2019)	\$ 39,694,532

Net position at June 30, 2019 was categorized as follows:

Net investment in capital assets	\$ 33,210,828
Unrestricted	6,483,704
Ending net position (June 30, 2019)	\$ 39,694,532

INTERIOR ALASKA NATURAL GAS UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

For the year ended June 30, 2019

Following are IGU's operating revenues and expenses, net nonoperating revenues (expenses) and change in net position for the period July 1, 2018 to June 30 2019:

	<u>June 30, 2019</u>
Operating revenues	
Residential sales	\$ 1,088,126
Commercial sales	11,320,947
Interruptible sales	2,976,866
FNSB contract revenue	304,575
Other operating revenues	<u>331,673</u>
Total operating revenues	<u>16,022,187</u>
Operating expenses	
Natural gas purchases	6,607,374
Trucking	1,989,446
Electricity	911,275
Gas liquefaction expenses	1,614,373
Fairbanks distribution operations	303,175
Fairbanks distribution maintenance	100,312
Fairbanks storage and vaporization operations	276,375
Fairbanks storage and vaporization maintenance	53,414
Engineering	199,775
AET operations and maintenance	23,666
Talkeetna maintenance	6,734
Customer service	221,313
Administrative and general expenses	2,473,327
Interest expense	42,277
Depreciation	2,210,143
Amortization	<u>462,351</u>
Total operating expenses	<u>17,495,330</u>
Operating loss	<u>(1,473,143)</u>
Nonoperating revenues (expenses)	
Gain from disposition of property, plant and equipment	3,842
Loss from disposition of materials and supplies inventory	(15,911)
Interest and dividend income	7,853
Other income	25,943
Transfers in (out)	541,889
Net decrease in fair value of investments	<u>24,299</u>
Nonoperating revenues (expenses) total	<u>587,915</u>
Change in net position	<u>(885,228)</u>
Net position - beginning of period	<u>40,579,760</u>
Net position - end of period	<u><u>\$ 39,694,532</u></u>

INTERIOR ALASKA NATURAL GAS UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
For the year ended June 30, 2019

Operating revenues for the period July 1, 2018 to June 30, 2019 are described as follows:

- **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.
- **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, 2018 to June 30, 2019 are described as follows:

- **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 systems 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 systems 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.

INTERIOR ALASKA NATURAL GAS UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
For the year ended June 30, 2019

- **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** represent 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, 2018 to June 30, 2019 consisted of:

- **Interest expense** is the cost of financing current equipment and expansion projects. See Long-term Debt notes to consolidating financial statements.

Net nonoperating revenues (expenses) for the period July 1, 2018 to June 30, 2019 are comprised of gains/(losses) from dispositions of property, plant and equipment and materials and supplies inventory, interest/dividend income from investments, transfers in and realized 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 nearing the completion of 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 continues 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, 2019, 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
Senior Consultants:

Kara Moore
James F. Dieringer, Jr.

Kathleen A.R. Thompson
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, 2019, 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 September 27, 2019 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

September 27, 2019

CONSOLIDATING FINANCIAL STATEMENTS

INTERIOR ALASKA NATURAL GAS UTILITY
CONSOLIDATING STATEMENT OF NET POSITION

For the year ended June 30, 2019

<u>Assets and Deferred Outflows of Resources</u>	<u>Fairbanks Natural Gas, LLC</u>	<u>Titan Alaska LNG, LLC</u>	<u>Arctic Energy Transportation, LLC</u>
Property, plant and equipment			
Property, plant and equipment in service, at cost	\$ 14,984,422	\$ 3,727,354	\$ 2,036,231
Less: accumulated provision for depreciation and amortization	<u>863,248</u>	<u>371,940</u>	<u>140,077</u>
Net property, plant and equipment in service	14,121,174	3,355,414	1,896,154
Gas plant held for future use, at cost	14,697,050		
Construction work in progress	<u>44,278,913</u>	<u>379,050</u>	
Net property, plant and equipment	<u>73,097,137</u>	<u>3,734,464</u>	<u>1,896,154</u>
Current assets			
Cash	4,169,489	1,490,284	9,241
Investments	487,906		
Accounts receivable, net	471,636	35,618	
Accounts receivable - subsidiaries	34,168	509,386	7,467
Liquefied natural gas inventory	415,510	72,239	16,982
Materials and supplies inventory	357,215		
Deposits and other current assets	<u>156,144</u>	<u>145,107</u>	<u>18,066</u>
Total current assets	<u>6,092,068</u>	<u>2,252,634</u>	<u>51,756</u>
Deferred outflows of resources			
Gas plant acquisition adjustment			
Total assets and deferred outflows of resources	<u>\$ 79,189,205</u>	<u>\$ 5,987,098</u>	<u>\$ 1,947,910</u>
 <u>Liabilities and Net Position</u>			
Current liabilities			
Current maturities of long-term debt	\$	\$ 166,053	\$
Accrued wages and burden	156,682	56,156	
Accounts payable	104,122	332,237	258
Accounts payable - subsidiaries	423,674	5,435	94,390
Construction payable	1,866,982	680	
Other current and accrued liabilities	<u>17,965</u>	<u>11</u>	
Total current liabilities	<u>2,569,425</u>	<u>560,572</u>	<u>94,648</u>
Noncurrent liabilities			
Accumulated deferred compensation	487,906		
Long-term debt, less current maturities			
AIDEA term loan	52,785,045		
Equipment loans payable		<u>708,174</u>	
Total noncurrent liabilities	<u>53,272,951</u>	<u>708,174</u>	
Net position			
Net investment in capital assets	18,802,325	2,859,557	1,896,154
Unrestricted deficit	<u>4,544,504</u>	<u>1,858,795</u>	<u>(42,892)</u>
Total net position	<u>23,346,829</u>	<u>4,718,352</u>	<u>1,853,262</u>
Total liabilities and net position	<u>\$ 79,189,205</u>	<u>\$ 5,987,098</u>	<u>\$ 1,947,910</u>

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 and Intercompany Eliminations	Interior Alaska Natural Gas Utility (Consolidated)
\$	\$ 21,030,313	\$ 41,778,320	\$ 751,274	\$	\$ 42,529,594
	936,324	2,311,589	16,138		2,327,727
	20,093,989	39,466,731	735,136		40,201,867
	2,278,816	16,975,866	22,258,726		39,234,592
		44,657,963	6,908,459		51,566,422
	22,372,805	101,100,560	29,902,321		131,002,881
5,666		5,674,680	278,752		5,953,432
		487,906			487,906
		507,254			507,254
	(523,499)	27,522		(27,522)	
	(105,067)	399,664			399,664
		357,215	143,246		500,461
		319,317	26,777		346,094
5,666	(628,566)	7,773,558	448,775	(27,522)	8,194,811
	2,032,720	2,032,720		6,477,668	8,510,388
\$ 5,666	\$ 23,776,959	\$ 110,906,838	\$ 30,351,096	\$ 6,450,146	\$ 147,708,080
\$	\$	\$ 166,053	\$	\$	\$ 166,053
		212,838			212,838
		436,617	55,309		491,926
	(523,499)		27,522	(27,522)	
		1,867,662	41,735		1,909,397
		17,976			17,976
	(523,499)	2,701,146	124,566	(27,522)	2,798,190
		487,906			487,906
		52,785,045	30,025,320	21,208,913	104,019,278
		708,174			708,174
		53,981,125	30,025,320	21,208,913	105,215,358
5,666	24,405,525	47,963,561	(21,488)	(14,731,245)	33,210,828
	(105,067)	6,261,006	222,698		6,483,704
5,666	24,300,458	54,224,567	201,210	(14,731,245)	39,694,532
\$ 5,666	\$ 23,776,959	\$ 110,906,838	\$ 30,351,096	\$ 6,450,146	\$ 147,708,080

INTERIOR ALASKA NATURAL GAS UTILITY

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2019

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC
Operating revenues			
Residential sales	\$ 1,088,126	\$	\$
Commercial sales	11,143,863	177,084	
Interruptible sales	2,976,866		
Commercial sales - subsidiaries		12,007,749	134,118
FNSB contract revenue			
Other operating revenues	331,673		
Total operating revenues	<u>15,540,528</u>	<u>12,184,833</u>	<u>134,118</u>
Operating expenses			
Natural gas purchases	11,772,947	6,686,246	105,083
Trucking		2,088,048	
Electricity		922,623	
Gas liquefaction expenses		1,614,373	
Fairbanks distribution operations	305,260		
Fairbanks distribution maintenance	100,312		
Fairbanks storage and vaporization operations	338,970		
Fairbanks storage and vaporization maintenance	53,414		
Engineering	199,775		
AET operations and maintenance			23,666
Talkeetna maintenance		6,734	
Customer service	221,313		
Administrative and general expenses	1,455,953	310,925	27,593
Taxes	87,866	54,273	184
Interest expense		42,277	
Depreciation	824,519	354,154	133,761
Amortization			
Total operating expenses	<u>15,360,329</u>	<u>12,079,653</u>	<u>290,287</u>
Operating income (loss)	<u>180,199</u>	<u>105,180</u>	<u>(156,169)</u>
Nonoperating revenues (expenses)			
Gain from disposition of property, plant and equipment	3,842		
Loss from disposition of materials and supplies inventory	(15,911)		
Interest and dividend income	7,290		
Other income	144,339	(537)	
Transfers in (out)	558,407		
Net increase in fair value of investments	24,299		
Nonoperating revenues (expenses) total	<u>722,266</u>	<u>(537)</u>	
Changes in net position	<u>902,465</u>	<u>104,643</u>	<u>(156,169)</u>
Net position - beginning of period	<u>22,444,364</u>	<u>4,613,709</u>	<u>2,009,431</u>
Net position - end of period	<u>\$ 23,346,829</u>	<u>\$ 4,718,352</u>	<u>\$ 1,853,262</u>

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

<u>Polar LNG, LLC</u>	<u>Acquisition Adjustment and Intercompany Eliminations</u>	<u>Pentex Alaska Natural Gas Company, LLC</u>	<u>Interior Alaska Natural Gas Utility</u>	<u>Pentex Acquisition Adjustment and Intercompany Eliminations</u>	<u>Interior Alaska Natural Gas Utility (Consolidated)</u>
\$	\$	\$ 1,088,126	\$	\$	\$ 1,088,126
		11,320,947			11,320,947
		2,976,866			2,976,866
	(12,141,867)				
		331,673	304,575		304,575
					331,673
	(12,141,867)	15,717,612	304,575		16,022,187
	(11,956,902)	6,607,374			6,607,374
	(98,602)	1,989,446			1,989,446
	(11,348)	911,275			911,275
		1,614,373			1,614,373
	(2,085)	303,175			303,175
		100,312			100,312
	(62,595)	276,375			276,375
		53,414			53,414
		199,775			199,775
		23,666			23,666
		6,734			6,734
		221,313			221,313
180		1,794,651	657,570	(129,666)	2,322,555
		142,323	8,450		150,773
		42,277			42,277
	894,103	2,206,537	3,605		2,210,142
	121,421	121,421		340,930	462,351
180	(11,116,008)	16,614,441	669,625	211,264	17,495,330
(180)	(1,025,859)	(896,829)	(365,050)	(211,264)	(1,473,143)
		3,842			3,842
		(15,911)			(15,911)
		7,290	563		7,853
		143,802	11,807	(129,666)	25,943
		558,407	(16,518)		541,889
		24,299			24,299
		721,729	(4,148)	(129,666)	587,915
(180)	(1,025,859)	(175,100)	(369,198)	(340,930)	(885,228)
5,846	25,326,317	54,399,667	570,408	(14,390,315)	40,579,760
\$ 5,666	\$ 24,300,458	\$ 54,224,567	\$ 201,210	\$ (14,731,245)	\$ 39,694,532

INTERIOR ALASKA NATURAL GAS UTILITY
CONSOLIDATING STATEMENT OF CASH FLOWS

For the year ended June 30, 2019

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC
Increase (Decrease) in Cash	<u> </u>	<u> </u>	<u> </u>
Cash flows from operating activities			
Cash received from customers	\$ 15,337,979	\$ 268,357	\$ 144,723
Cash received from subsidiaries	418,346	12,043,840	144,723
Cash received from FNSB			
Cash paid to suppliers	(926,556)	(10,750,607)	(9,786)
Cash paid to subsidiaries	(12,004,287)	(371,992)	(128,486)
Cash paid related to employees	<u>(1,577,823)</u>	<u>(773,190)</u>	<u>(3,795)</u>
Net cash provided by (used in) operating activities	<u>1,247,659</u>	<u>416,408</u>	<u>2,656</u>
Cash flows from capital and related financing activities			
Proceeds from issuance of long-term debt	26,167,336		
Principal payments on long-term debt		(158,945)	
Interest payments		(42,277)	
Proceeds from disposal of property, plant and equipment	3,842		
Construction work in progress	(26,945,566)	(378,370)	
Property, plant and equipment additions	<u>(328,607)</u>	<u>(81,291)</u>	
Net cash used in capital and related financing activities	<u>(1,102,995)</u>	<u>(660,883)</u>	
Cash flows from investing activities			
Interest and dividends received	7,290		
Purchase of investments	<u>(50,000)</u>		
Net cash used in investing activities	<u>(42,710)</u>		
Net increase (decrease) in cash	101,954	(244,475)	2,656
Cash at beginning of year	<u>4,067,535</u>	<u>1,734,759</u>	<u>6,585</u>
Cash at end of year	<u>\$ 4,169,489</u>	<u>\$ 1,490,284</u>	<u>\$ 9,241</u>

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

<u>Polar LNG, LLC</u>	<u>Acquisition Adjustment and Intercompany Eliminations</u>	<u>Pentex Alaska Natural Gas Company, LLC</u>	<u>Interior Alaska Natural Gas Utility</u>	<u>Pentex Acquisition Adjustment and Intercompany Eliminations</u>	<u>Interior Alaska Natural Gas Utility (Consolidated)</u>
\$	\$	\$	\$	\$	\$
	(12,504,765)	15,606,336 102,144	15,295	(102,144)	15,621,631
(540)	12,504,765	(11,687,489)	454,660 (615,114)		454,660 (12,302,603)
		(2,354,808)	(102,144) (24,041)	102,144	(2,378,849)
<u>(540)</u>		<u>1,666,183</u>	<u>(271,344)</u>		<u>1,394,839</u>
		26,167,336 (158,945) (42,277)	678,542		26,845,878 (158,945) (42,277)
		3,842 (27,323,936) (409,898)	(896,856)		3,842 (28,220,792) (409,898)
		<u>(1,763,878)</u>	<u>(218,314)</u>		<u>(1,982,192)</u>
		7,290 (50,000)			7,290 (50,000)
		<u>(42,710)</u>			<u>(42,710)</u>
(540)		(140,405)	(489,658)		(630,063)
<u>6,206</u>		<u>5,815,085</u>	<u>768,410</u>		<u>6,583,495</u>
<u>\$ 5,666</u>	<u>\$</u>	<u>\$ 5,674,680</u>	<u>\$ 278,752</u>	<u>\$</u>	<u>\$ 5,953,432</u>

INTERIOR ALASKA NATURAL GAS UTILITY

CONSOLIDATING STATEMENT OF CASH FLOWS
(Continued)

For the year ended June 30, 2019

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating loss	\$ 180,199	\$ 105,180	\$ (156,169)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	824,519	354,154	133,761
Interest income			
Interest payments		42,277	
Other income	144,339	(537)	
(Increase) decrease in assets			
Accounts receivable, net	99,531	(17,341)	
Accounts receivable - subsidiaries	(28,314)	31,345	9,024
Contract receivables			
Liquefied natural gas inventory	8,599	13,286	6,001
Materials and supplies inventory	(84,069)		
Deposits and other current assets	(28,395)	(26,275)	(4,005)
Increase (decrease) in liabilities			
Accrued wages and burden	45,488	(1,950)	
Accounts payable	39,134	(69,243)	156
Accounts payable - subsidiaries	(42,068)	(11,037)	13,888
Accumulated deferred compensation	14,397		
Other current and accrued liabilities	74,299	(3,451)	
Total adjustments	1,067,460	311,228	158,825
Net cash provided by (used in) operating activities	\$ 1,247,659	\$ 416,408	\$ 2,656

Noncash Investing Activities

Fairbanks Natural Gas, LLC (FNG):

FNG had realized gains on available for sale securities purchased to offset accumulated deferred compensation liabilities in the amount of \$31,589 during the year ended June 30, 2019.

FNG reclassified meters installed from meter inventory and pipe fitting inventory to the proper asset account in the amount of \$21,330 during the year ended June 30, 2019.

For the year ended June 30, 2019, Construction payable included costs capitalized to construction work in process totaling \$1,035,496.

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

<u>Polar LNG, LLC</u>	<u>Acquisition Adjustment and Intercompany Eliminations</u>	<u>Pentex Alaska Natural Gas Company, LLC</u>	<u>Interior Alaska Natural Gas Utility</u>	<u>Pentex Acquisition Adjustment and Intercompany Eliminations</u>	<u>Interior Alaska Natural Gas Utility (Consolidated)</u>
<u>\$ (180)</u>	<u>\$ (1,025,859)</u>	<u>\$ (896,829)</u>	<u>\$ (365,050)</u>	<u>\$ (211,264)</u>	<u>\$ (1,473,143)</u>
	1,015,524	2,327,958	3,605	340,930	2,672,493
			563		563
		42,277			42,277
		143,802	11,807	(129,666)	25,943
		82,190	2,925		85,115
	(39,577)	(27,522)		27,522	
			150,085		150,085
	10,335	38,221			38,221
		(84,069)			(84,069)
		(58,675)	(26,777)		(85,452)
		43,538			43,538
		(29,953)	(61,465)		(91,418)
(360)	39,577		27,522	(27,522)	
		14,397			14,397
		70,848	(14,559)		56,289
<u>(360)</u>	<u>1,025,859</u>	<u>2,563,012</u>	<u>93,706</u>	<u>211,264</u>	<u>2,867,982</u>
<u>\$ (540)</u>	<u>\$</u>	<u>\$ 1,666,183</u>	<u>\$ (271,344)</u>	<u>\$</u>	<u>\$ 1,394,839</u>

Interior Alaska Natural Gas Utility (IGU):

During the year ended June 30, 2019, IGU transferred \$16,518 of pipe and pipe fittings from material and supplies inventory to FNG.

For the year ended June 30, 2019, Construction payable included costs capitalized to construction work in process totaling \$41,735.

This Page Intentionally Left Blank

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

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 for the operation of the utility, including securing funding, developing a capital program to build out the necessary infrastructure, and establishing a public outreach protocol to assist homeowners in converting to natural gas. IGU contracted with Stantec Consulting Services, Inc. (previously MWH Americas, Inc.) to provide project management services for the startup of IGU. IGU also initiated engineering studies for the project. From inception through April 3, 2014, IGU performed services under the Borough contract. After April 3, 2014, IGU funded operations through the contract with the Borough and funded the design, right-of-way, permitting, management services and other contractual services provided to advance construction of the project using accumulated net profits, accounts payable and a line of credit provided by the Alaska Industrial Development and Export Authority (AIDEA).

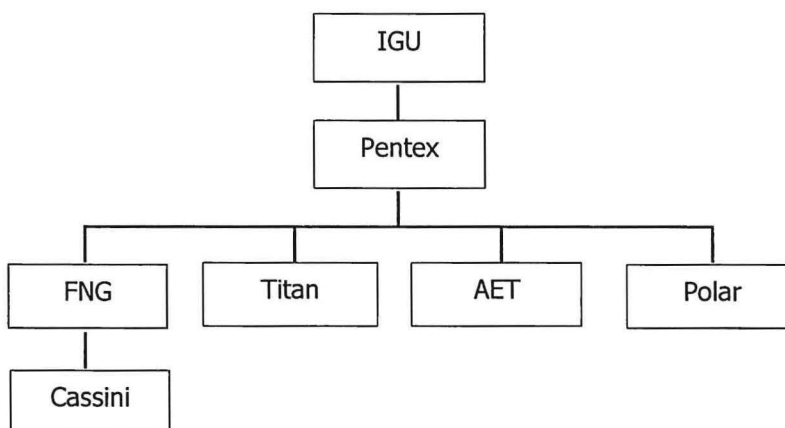
On December 20, 2013, IGU was awarded a certificate of public convenience and necessity (CPCN) by the Regulatory Commission of Alaska determining a service area within the Borough. IGU has a long-term goal to deliver gas to the customers' meter for approximately \$15 per thousand cubic feet (mcf) by 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.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS (Continued)

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 907 Terminal Street, 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 consolidating 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 exempt status is still in effect.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)

Use of Estimates - In preparing the consolidating 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.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)

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 consolidating 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, 2019, 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 September 27, 2019, the date on which the consolidating financial statements were available to be issued.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)

PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment activities were as follows for the fiscal year ended June 30, 2019:

	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019
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	23,650,341	28,148,645	(232,564)	51,566,422
Total nondepreciable components of property, plant and equipment	63,988,309	28,148,645	(232,564)	91,904,390
Depreciable components of property, plant and equipment				
Distribution, storage and vaporization	27,972,398	280,071		28,252,469
LNG production equipment	7,907,020	50,495		7,957,515
General plant				
Structures and improvements	3,019,163	38,140		3,057,303
Transportation and power-operated equipment	1,925,753	159,072		2,084,825
Furniture and office equipment	57,867	16,239		74,106
Total depreciable components of property, plant and equipment	40,882,201	544,017		41,426,218
Less: accumulated provision for depreciation				
Distribution, storage and vaporization	(60,222)	(1,271,677)		(1,331,899)
LNG production equipment	(32,563)	(677,599)		(710,162)
General plant				
Structures and improvements	(6,316)	(133,761)		(140,077)
Transportation and power-operated equipment	(4,600)	(97,649)		(102,249)
Furniture and office equipment	(13,884)	(29,456)		(43,340)
Total accumulated provision for depreciation and amortization	(117,585)	(2,210,142)		(2,327,727)
Total depreciable components of property, plant and equipment, net	40,764,616	(1,666,125)		39,098,491
Net property, plant and equipment	\$ 104,752,925	\$ 26,482,520	\$ (232,564)	\$ 131,002,881

Depreciation expense totaled \$2,210,142 for property, plant and equipment for the fiscal year ended June 30, 2019.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources at June 30, 2019 consisted of a \$2,032,720 gas plant acquisition adjustment which resulted from the purchase of Pentex by AIDEA and a \$6,477,668 gas plant acquisition adjustment resulting from the purchase of Pentex by IGU. The acquisition adjustments for IGU and Pentex will be recognized as amortization expense as follows:

Year ending June 30:	Interior Alaska Natural Gas Utility	Pentex Alaska Natural Gas Co., LLC	Interior Alaska Natural Gas Utility (Consolidated)
2020	\$ 340,930	\$ 121,421	\$ 462,351
2021	340,930	121,421	462,351
2022	340,930	121,421	462,351
2023	340,930	121,421	462,351
2024 - 2028	1,704,650	607,103	2,311,753
2029 - 2033	1,704,650	607,103	2,311,753
2034 - 2038	1,704,648	281,396	1,986,044
2039 - 2043		14,909	14,909
2044 - 2048		14,909	14,909
2049 - 2053		14,909	14,909
2054 - 2056		6,707	6,707
	<u>\$ 6,477,668</u>	<u>\$ 2,032,720</u>	<u>\$ 8,510,388</u>

Amortization expense for the year ended June 30, 2019 was \$462,351.

FAIR VALUE OF FINANCIAL INSTRUMENTS

During the year, FNG had a recurring fair value measurement consisting of a S&P 500 rated mutual fund (equity) investment account at U.S. Bancorp (Level 1 inputs). Due to a downturn in the market, the securities were sold in August 2018 and the funds were retained in money market funds within the investment account, with plans to reinvest the funds once the market improved. As of June 30, 2019, the investment account consisted of money market funds totaling \$487,906.

ACCOUNTS RECEIVABLE

The accounts receivable balances as of June 30, 2019, were as follows:

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Interior Alaska Natural Gas Utility (Consolidated)
Trade	\$ 546,636	\$ 35,618	\$ 582,254
Less: allowance for doubtful accounts	<u>(75,000)</u>		<u>(75,000)</u>
	<u>\$ 471,636</u>	<u>\$ 35,618</u>	<u>\$ 507,254</u>

At June 30, 2019 all natural gas sales were billed.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)

INVENTORIES

Inventories consisted of the following on June 30, 2019:

	Liquefied Natural Gas	Materials and Supplies Inventory	Total
Fairbanks Natural Gas, LLC	\$ 415,510	\$ 357,215	\$ 772,725
Titan Alaska LNG, LLC	72,239		72,239
Arctic Energy Transportation, LLC	16,982		16,982
Eliminations	<u>(105,067)</u>		<u>(105,067)</u>
Pentex Alaska Natural Gas Company, LLC	399,664	357,215	756,879
Interior Alaska Natural Gas Utility		<u>143,246</u>	<u>143,246</u>
Interior Alaska Natural Gas Utility (Consolidated)	<u>\$ 399,664</u>	<u>\$ 500,461</u>	<u>\$ 900,125</u>

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. FNG allocates labor costs to IGU based on time spent by FNG employees working on IGU specific tasks.

Labor allocations and gas purchases among subsidiaries for the year ended June 30, 2019 were as follows:

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC	Interior Alaska Natural Gas Utility	Total
Labor allocated from FNG	\$	\$	\$	\$ 129,666	\$ 129,666
LNG purchased from Titan	11,897,398		110,351		12,007,749
Natural gas purchased from AET	<u>61,656</u>	<u>72,462</u>			<u>134,118</u>
	<u>\$ 11,959,054</u>	<u>\$ 72,462</u>	<u>\$ 110,351</u>	<u>\$ 129,666</u>	<u>\$ 12,271,533</u>

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

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)

Included in the statement of net position were the following related party balances at June 30, 2019:

	Fairbanks Natural Gas, LLC	Titan Alaska LNG, LLC	Arctic Energy Transportation, LLC	Interior Alaska Natural Gas Utility	Total
<u>Accounts receivable:</u>					
IGU	\$ 27,522	\$ 416,207	\$ 7,467	\$	\$ 451,196
Titan	5,435	93,179			98,614
AET	1,211				1,211
	<u>\$ 34,168</u>	<u>\$ 509,386</u>	<u>\$ 7,467</u>	<u>\$</u>	<u>\$ 551,021</u>
<u>Accounts payable:</u>					
FNG	\$	\$ 5,435	\$ 1,211	\$ 27,522	\$ 34,168
Titan	416,207		93,179		509,386
AET	7,467				7,467
	<u>\$ 423,674</u>	<u>\$ 5,435</u>	<u>\$ 94,390</u>	<u>\$ 27,522</u>	<u>\$ 551,021</u>

All related party balances and transactions are eliminated in the consolidating financial statements at June 30, 2019.

LONG-TERM DEBT - FNSB LINE OF CREDIT

IGU entered into a \$7,500,000 line of credit agreement 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. In fiscal year 2018, the balance and accrued interest was repaid to the Borough. There was no outstanding balance at June 30, 2019.

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

Equipment loans payable consisted of the following at June 30, 2019:

	Balance at June 30, 2018	Additions	Principal payments	Balance at June 30, 2019	Amounts due within one year
AIDEA 0.25 percent term loan payable	\$ 77,173,400	\$ 26,845,878	\$	\$ 104,019,278	\$
Wells Fargo Equipment Finance, Inc. 4.15 percent note payable	255,090		(46,881)	208,209	48,864
Wells Fargo Equipment Finance, Inc. 4.48 percent note payable	778,082		(112,064)	666,018	117,189
	<u>\$ 78,206,572</u>	<u>\$ 26,845,878</u>	<u>\$ (158,945)</u>	<u>\$ 104,893,505</u>	<u>\$ 166,053</u>

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)

The 0.25 percent term loan payable to AIDEA is part of the Financing Agreement 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, the demand deferral period, with interest only payments due. The term loan shall be paid in 420 monthly installments commencing on the first day of the first calendar month after the expiration of the deferral period or the demand deferral period, whichever is later. The term loan is secured by all of IGU's revenues and assets.

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 a 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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Titan Alaska LNG, LLC:</u>			
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	<u>23,972</u>	<u>134</u>	<u>24,106</u>
	<u>874,227</u>	<u>99,406</u>	<u>973,633</u>
<u>Interior Alaska Natural Gas Utility:</u>			
2034	\$	\$ 251,202	\$ 251,202
2035		260,048	260,048
2036		260,048	260,048
2037		260,048	260,048
2038		260,048	260,048
2039	3,343,100	256,219	3,599,319
2040-68	<u>100,676,178</u>	<u>3,704,088</u>	<u>104,380,266</u>
	<u>104,019,278</u>	<u>5,251,701</u>	<u>109,270,979</u>
	<u>\$ 104,893,505</u>	<u>\$ 5,351,107</u>	<u>\$110,244,612</u>

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)

OPERATING LEASES

Operating lease terms are outlined as follows:

IGU leased an office facility in Fairbanks, Alaska, for a monthly rent of \$4,130 from July 1, 2018 through August 31, 2018. In September 2018, IGU renegotiated lease terms and opted to reduce its space in the same location for a reduced monthly rent of \$1,500. The lease expense for the fiscal year ended June 30, 2019 was \$23,260.

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. The lease expense for the fiscal year ended June 30, 2019 was \$2,400.

FNG leases office facilities in Fairbanks, Alaska under an operating lease. The lease became effective June 1, 2016 and expired on May 31, 2019. Monthly payments were \$10,253, which consisted 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. FNG continued to lease the office facility on a month-to-month basis after the expiration at a monthly rate of \$12,557. In September 2019, the Board of Directors approved the execution of a lease extension for two additional years commencing on September 1, 2019 through August 31, 2021. Annual lease expense for the fiscal year ended June 30, 2019 was \$130,083.

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 \$6,561 for the fiscal year ended June 30, 2019.

The following is a schedule of future minimum lease payments for operating leases as of June 30, 2019:

	Fairbanks Natural Gas, LLC	Arctic Energy Transportation, LLC	Interior Alaska Natural Gas Company (Consolidated)
2020	\$ 120,750	\$ 6,659	\$ 127,409
2021	144,900	6,759	151,659
2022	24,150	6,860	31,010
2023		6,963	6,963
2024		7,068	7,068
	\$ 289,800	\$ 34,309	\$ 324,109

INTERIOR ALASKA NATURAL GAS UTILITY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)

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 credited to the executive's deferred compensation account prior to June 14, 2018, the closing date of IGU's acquisition of the membership interests of Pentex Alaska Natural Gas, Company, LLC, became fully vested on that date. 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 at June 30, 2019 was \$487,906.

CONSOLIDATED NET POSITION

Consolidated net position of IGU consisted of the following at June 30, 2019:

	June 30, 2019
Net investment in capital assets	
Total capital assets	\$ 131,002,881
Gas plant acquisition adjustment	8,510,388
Materials and supplies inventory	500,461
AIDEA term loan	(104,019,278)
Construction payable	(1,909,397)
Equipment loans payable (total long-term and current)	(874,227)
Total net investment in capital assets	33,210,828
Unrestricted	6,483,704
Net position	<u>\$ 39,694,532</u>

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, 2019.

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, expired July 31, 2018 then remains in effect year to year or terminates upon twelve month written notice by either party.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS (Continued)

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. Titan terminated the contract effective June 30, 2019. On June 27, 2019, Titan entered into a new "LNG Transportation Agreement" with Big State Logistics, Inc. that commences July 1, 2019 and expires June 30, 2022.

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 were 100% vested when accrued. Employer contributions were paid with each payroll. Employer contributions for the year ended June 30, 2019 were \$1,032. The general manager terminated employment in August 2018.

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 eligible employee compensation. For the year ended June 30, 2019, FNG's matching contributions totaled \$27,069 and Titan's matching contributions totaled \$12,324.

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 \$6,162,451, the uninsured and uncollateralized balance was \$1,662,451 at June 30, 2019. IGU believes it is not exposed to any significant credit risk on cash and cash equivalents.

INTERIOR ALASKA NATURAL GAS UTILITY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
(Continued)

RELATED PARTIES

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

	Phase I		Phase II		Total
	*Task 1 and 2	Task 3	Task 4	Task 5	
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)
Contract costs in fiscal year 2019		(304,575)			(304,575)
Total contract costs incurred	(208,309)	(1,655,221)	(729,676)	(102,188)	(2,695,394)
Allocated to future operating expense	(110,691)		(5,524)	(186,312)	(302,527)
	(319,000)	(1,655,221)	(735,200)	(288,500)	(2,997,921)
Remaining on contract at June 30, 2019	\$				-

*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.

INTERIOR ALASKA NATURAL GAS UTILITY

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS (Continued)

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. Collective bargaining negotiations continued through August 2019. The collective bargaining contract was ratified by its members and executed by management on August 22, 2019.

On September 19, 2019 IGU entered into a three year "Employment Agreement" with the General Manager, Daniel Britton. The term of the agreement is October 1, 2019 through September 30, 2022.

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. 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.

**SUPPLEMENTAL REPORT REQUIRED BY
*GOVERNMENT AUDITING STANDARDS***

This Page Intentionally Left Blank

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, 2019, and the related notes to the consolidating financial statements, which collectively comprise IGU's consolidating financial statements, and have issued our report thereon dated September 27, 2019.

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
September 27, 2019



Cook & Haugeberg LLC
CERTIFIED PUBLIC ACCOUNTANTS

INTERIOR ALASKA NATURAL GAS UTILITY
COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS

September 27, 2019



Cook & Haugeberg **LLC**

CERTIFIED PUBLIC ACCOUNTANTS

September 27, 2019

Members of the Board of Directors
Interior Alaska Natural Gas Utility

In planning and performing our audit of the consolidating financial statements of Interior Alaska Natural Gas Utility (IGU) and its subsidiaries as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered IGU's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 IGU's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

We noted another matter involving internal control and its operation and the recommendation discussed below represents a potential area for improvement noted as a result of our observations and documentation of your systems.

Prior Period Recommendation - Unresolved

Time Sheet Review

Previously we noted that while performing audit payroll testwork procedures we identified instances where timesheets were not approved by supervisors. During the FY19 audit process we discovered two instances of time sheets not being approved by supervisors. Supervisor approval of time sheets, as evidenced by a signature on the time sheet, provides assurance the internal controls established for accuracy and completeness of payroll related transactions are operating effectively. Both instances identified during FY19 audit procedures occurred prior to implementing the Asure payroll processing software. It is anticipated the electronic timesheet approval process required by this new software will provide additional internal controls which will prevent similar instances going forward.

* * * * *

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
Senior Consultants:

Kara Moore
James F. Dieringer, Jr.

Kathleen A.R. Thompson
Michael T. Cook

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Cook ~ Haugeberg LLC

Certified Public Accountants