LAURENTIAN ENERGY AUTHORITY I, LLC

Virginia, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2018 and 2017

LAURENTIAN ENERGY AUTHORITY I, LLC

TABLE OF CONTENTS
As of and for the Years December 31, 2018 and 2017

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Laurentian Energy Authority I, LLC
Virginia, Minnesota

We have audited the accompanying financial statements of Laurentian Energy Authority I, LLC (Authority), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Authority has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Biomass Mandate Statistics, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion or provide any assurance on it.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 31, 2019

LAURENTIAN ENERGY AUTHORITY I, LLC

STATEMENTS OF NET POSITION
As of December 31, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and investments	$ 139,774	$ 1,272,813
Accounts receivable	4,000	4,045,297
Unbilled revenue	-	655,828
Accrued interest receivable	-	585
Restricted assets		
Redemption account	-	575,721
Accrued interest receivable	-	17,135
Woodchip inventory	-	66,185
Prepayments	114,298	112,122
Current portion of lease receivable	20,000	20,000
Current portion of termination agreement receivable	18,083,333	-
Current portion of grant contract receivable	6,800,000	-
Current portion of power purchase agreement	-	145,828
Total Current Assets	25,161,405	6,911,514
NONCURRENT ASSETS		
Restricted Assets		
Reserve account	-	5,975,038
Operating and liability reserve fund	-	4,176,863
Capital improvement fund	-	1,129,589
Other Assets		
Power purchase agreement	-	1,166,622
Lease receivable	20,000	40,000
Termination agreement receivable	72,333,334	-
Grant contract receivable	13,600,000	-
Capital Assets		
Plant in service	66,224,722	67,366,108
Accumulated depreciation	(20,821,484)	(19,929,521)
Total Noncurrent Assets	131,356,572	59,924,699
Total Assets	156,517,977	66,836,213

LIABILITIES	2018	2017
CURRENT LIABILITIES		
Accounts payable	$ 31,759	$ 749,172
Accounts payable to members for operations	-	2,792,673
Current Liabilities Payable from Restricted Assets		
Current portion of revenue bonds	-	5,315,000
Accrued interest payable	-	114,333
Total Current Liabilities	31,759	8,971,178
NONCURRENT LIABILITIES		
Revenue bonds	-	17,635,000
Lease security deposit	21,000	21,000
Unamortized debt discount	-	(97,091)
Unamortized bond premium	-	42,951
Total Noncurrent Liabilities	21,000	17,601,860
Total Liabilities	52,759	26,573,038
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue	28,333	48,333
NET POSITION		
NET POSITION		
Net investment in capital assets	45,403,238	30,515,765
Restricted for:		
Debt service	-	478,523
Capital improvement	-	1,129,589
Operating and liability reserve	-	4,176,863
Unrestricted	111,033,647	3,914,102
TOTAL NET POSITION	$ 156,436,885	$ 40,214,842

See accompanying notes to financial statements.

LAURENTIAN ENERGY AUTHORITY I, LLC

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Sales to members	$ 3,916,512	$ 7,012,167
Sales to others	16,993,727	32,867,731
Total Operating Revenues	20,910,239	39,879,898
OPERATING EXPENSES		
Operation and maintenance	16,261,516	30,875,246
Depreciation expense	1,791,087	1,823,341
Amortization of power purchase agreement	72,914	145,828
Total Operating Expenses	18,125,517	32,844,415
OPERATING INCOME	2,784,722	7,035,483
NONOPERATING REVENUES (EXPENSES)		
Member distributions	(22,813,334)	(291,090)
Rental income	6,000	-
Lease revenue	20,000	11,667
Bond redemption expenses	(699,911)	-
Gain on sale of assets	-	5,500
Investment income	121,588	271,534
Interest expense	(815,575)	(1,668,273)
Amortization of premiums and discounts	(6,911)	(13,823)
Total Nonoperating Revenues (Expenses)	(24,188,143)	(1,684,485)
Income (Loss) Before Special Item	(21,403,421)	5,350,998
SPECIAL ITEM - GAIN ON TERMINATION AGREEMENT	137,625,464	-
CHANGE IN NET POSITION	116,222,043	5,350,998
TOTAL NET POSITION – Beginning of Year	40,214,842	34,863,844
TOTAL NET POSITION – END OF YEAR	$ 156,436,885	$ 40,214,842

See accompanying notes to financial statements.

LAURENTIAN ENERGY AUTHORITY I, LLC

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from members and others	$ 25,613,363	$ 38,731,787
Paid to suppliers for goods and services	(19,465,330)	(31,393,875)
Net Cash Flows From Operating Activities	6,148,033	7,337,912
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Member distributions	(22,813,334)	(291,090)
Received from supplier	-	60,000
Received on termination agreement	31,683,333	-
Payments on contract terminations	(3,635,000)	-
Lease payments received	20,000	21,000
Net Cash Flows From Noncapital Financing Activities	5,254,999	(210,090)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt retired	(22,950,000)	(4,925,000)
Interest paid on debt	(929,908)	(1,692,685)
Bond redemption revenues	257,000	-
Bond redemption expenses	(909,682)	-
Acquisition and construction of capital assets	-	(285,214)
Net Cash Flows From Capital and Related Financing Activities	(24,532,590)	(6,902,899)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	-	(13,949,914)
Investments sold	11,310,047	14,186,665
Investment income	139,308	285,260
Net Cash Flows From Investing Activities	11,449,355	522,011
Net Change in Cash and Cash Equivalents	(1,680,203)	746,934
CASH AND CASH EQUIVALENTS – Beginning of Year	1,819,977	1,073,043
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 139,774	$ 1,819,977

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Amortization of debt premium and discount	$ 6,911	$ 13,823
Amortization of purchase power agreement	$ 72,914	$ 145,828

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 2,784,722	$ 7,035,483
Nonoperating revenue	6,000	-
Noncash items in operating income		
Depreciation expense	1,791,087	1,823,341
Amortization of power purchase agreement	72,914	145,828
Changes in assets and liabilities		
Accounts receivable	4,697,125	(1,148,111)
Woodchip inventory	66,185	604,016
Prepayments	(2,176)	(29,486)
Accounts payable	(717,410)	116,388
Amounts payable to members for operations	(2,550,414)	(1,209,547)
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 6,148,033	$ 7,337,912

	2018	2017
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION		
Cash and investments	$ 139,774	$ 1,272,813
Redemption account	-	575,721
Reserve account	-	5,975,038
Operating and liability reserve fund	-	4,176,863
Capital improvement fund	-	1,129,589
Total Cash and Investments	139,774	13,130,024
Less: Noncash equivalents	-	(11,310,047)
CASH AND CASH EQUIVALENTS	$ 139,774	$ 1,819,977

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Laurentian Energy Authority I, LLC (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the Authority are described below.

NATURE OF BUSINESS

The Authority is a joint venture formed by municipal utilities, and is a limited liability company created under Minnesota Statutes, Sections 452.25 and 471.59 and organized on January 31, 2005, under Minnesota Statutes Chapter 322B. The two members of the Authority are the Hibbing Public Utilities Commission (HPUC), a municipal utility of Hibbing, Minnesota, and the Virginia Public Utilities Commission (VPUC), a municipal utility of Virginia, Minnesota. The Authority was created to supply 35 MW of renewable biomass fueled electricity to Northern States Power Company, an operating subsidiary of Xcel Energy, as well as to supply steam to HPUC and VPUC.

The management of the business and affairs of the Authority are governed by a Board of Directors (Board). The Board consists of seven (7) directors. The General Manager and the acting Chairman and Vice Chairman of the HPUC and the General Manager and the acting President and Vice President of the VPUC are, by virtue of their positions, members of the Board. The seventh director was elected by a majority vote of the other directors.

Each member owns and operates a combined heat and power plant which provides both steam and electricity for distribution to its service area. The Authority is not regulated. Customer rates are set by the Board and existing operating and power agreements.

The Authority began biomass fueled steam and electricity production in January 2007. On July 2, 2018 an agreement terminating electric power sales to Northern State Power became effective. Subsequently, steam sales agreements were retroactively terminated as of July 2, 2018, causing operations to cease. The Authority’s future role is to support member biomass fueled production endeavors.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

DEPOSITS AND INVESTMENTS

For purposes of the statements of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Investment of Authority funds is restricted by state statutes. Investments are limited to:

- Direct obligations of the Department of the Treasury of the United States;
- Obligations of any of the following federal agencies which represent full faith and credit of the United States;
- Bonds, notes or other evidences of indebtedness issued by Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) with the highest rating category of a nationally recognized rating agency and with remaining maturities not exceeding three years;
- U. S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial bonds which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by Standard & Poor's and "P-1" by Moody's and maturing no more than 360 days after purchase;
- Commercial paper which has a time of purchase in the single highest classification of a nationally recognized rating agency and which matures not more than 270 days after the date of purchase;
- Investments in a money market fund rated "AAAm" or "AAAm-G" or better by Standard & Poor's;
- Cash insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with direct obligations of the Department of the Treasury of the United States;
- Pre-refunded Municipal Obligations under certain circumstances;
- The local government investment pool; and
- General obligations of the State of Minnesota or any of its municipalities.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on methods and inputs as outlined in Note 2. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the statements of revenues, expenses, and changes in net position as increases or decreases in investment income. Fair values may have fluctuated significantly since year end.

ACCOUNTS RECEIVABLE

This receivable balance represents wholesale amounts to be paid to the Authority from HPUC, VPUC, Xcel Energy, and Minnesota Power. Due to the participant and counterparty relationships and the high degree of collectability, no allowance for uncollectible accounts is considered necessary.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Accounts Receivable (cont.)

Pursuant to the Second Amendment to the Restated Biomass Power Purchase Agreement dated June 28, 2013, the Authority, beginning in 2014, is entitled to recover costs incurred to procure and transport fuel, in excess of $3.40 per MMbtu, used to generate the Net Actual Generation. These amounts are determined and billed monthly subject to an annual reconciliation. The amount in Unbilled Revenue at December 31, 2017 represents the fuel adjustment for the month of December plus the amount of the annual reconciliation.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

Inventory

Woodchip inventory is used as fuel for the biomass boilers. The inventory is maintained using a modified first in, first out (FIFO) approach. Costs are accumulated for all loads in a particular month, and an average cost per ton is calculated. Costs of wood delivered to the boiler plant are based on the cost per ton of the oldest layer of inventory and charged to expense as consumed.

In late 2013, management determined that the overall quality of the stockpile of biomass fuel located at the Sherman Storage area had deteriorated to such a point that it was no longer usable in the Authority's boilers. Consequently, management wrote off the value of that inventory.

In 2014, management found a buyer for a portion of the stockpile of biomass fuel previously written off in 2013 at a price of $14/ton. The $0 and $12,635 sales are recorded as a reduction to operating expenses in 2018 and 2017, respectively.

Prepayments

Prepayments represent insurance, down payment for vehicles and prepaid termination benefits.

Termination Agreement Receivable and Grant Contract Receivable

The Authority and Xcel Energy executed termination agreements for the purpose if terminating the power purchase agreement that runs between them. The termination involves consideration pursuant to two agreements, a termination agreement and a grant contract, working together to provide consideration for the PPA termination. Both of these agreements were executed on July 14, 2017 and both agreements have concurrent contingencies, namely approvals of the Minnesota Public Utilities Commission (MPUC) and North Dakota Public Service Commission (NDPCS). These contingencies were either met or waived by Xcel by June 28, 2018, and thus the contract termination was effective July 2, 2018. The agreements resulted in a gain which is recorded as a special item on the Statement of Net Assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

TERMINATION AGREEMENT RECEIVABLE AND GRANT CONTRACT RECEIVABLE (cont.)

The Termination Agreement calls for the Authority to terminate production pursuant to the Power Purchase Agreement entered into in 2005 and subsequently amended. In consideration, the Termination Agreement requires NSP to pay to the Authority $108,500,000, divided into six equal annual payments of $18,083,333 to be paid the day after the contract terminates and on the anniversary of that date for five years. The first payment was received as of July 2, 2018 and the remaining payments will be received annually on this date.

The Grant Contract, which works in tandem with the Termination Agreement, requires NSP to pay from funds that would have been transferred to a “Renewable Development Account” to the Authority. Payments under this agreement are five installments of $6,800,000. The first two installments were paid on July 2, 2018 and the remaining three payments will occur on July 2, of 2019 to 2021.

Proceeds from these termination agreements were first used to redeem the 2005A and 2005B revenue bonds, to pay down remaining operating costs, and to address contract termination issues with biomass suppliers and other contractors. Remaining proceeds were / will be distributed to its members.

POWER PURCHASE AGREEMENT

The Authority has obtained the rights to a Power Purchase Agreement to provide 50 MW of biomass capacity and associated electricity to Xcel Energy for the 20 years beginning with the start of commercial operation on or before January 31, 2007. The agreement was subsequently amended to 35 MW of biomass capacity and associated electricity. Legal and acquisition costs related to the power purchase agreement are amortized over twenty years beginning with commercial operations in 2007 using the straight-line method and are shown net of amortization. During 2018 the unamortized balance was written off with the execution of the termination agreement with Xcel energy.

CAPITAL ASSETS

Capital assets are generally defined by the Authority as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year.

Capital assets of the Authority are recorded at cost or the acquisition value at the time of contribution to the Authority. Major outlays for utility plant are capitalized as projects when constructed. Capital assets in service are depreciated over their estimated useful lives using the straight-line method over the following useful lives:

	Years
Land improvements	20
Woodyard buildings	30
Woodyard equipment	7 – 20
Boilers	40

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ACCOUNTS PAYABLE TO MEMBERS FOR OPERATIONS

These balances represent amounts owed to HPUC and VPUC under the Operation and Management Agreement (Note 8).

ACCRUED COMPENSATION

The Authority has no direct employees. Staffing related costs are paid pursuant to the Operation and Management Agreement (Note 8) as well as costs paid to contracting parties fulfilling the personnel needs at the woodyard. As such, no accrued compensation for vacation or sick leave is recorded on the Authority's financial statements.

LONG-TERM OBLIGATIONS

Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year-end for premiums and discounts is shown as an increase or decrease in the liability section of the statement of net position.

DEFERRED INFLOWS OF RESOURCES

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

REVENUES AND EXPENSES/CHARGES FOR SERVICES

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to members for sales and services and to other parties based on contractual output requirements. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

MEMBER DISTRIBUTIONS

Member distributions represent amounts paid to members by the Authority in order to distribute excess net income.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations,* Statement No. 84, *Fiduciary Activities,* Statement No. 87, *Leases,* Statement No. 88, *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements,* Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* and Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61.* When they become effective, application of these standards may restate portions of these financial statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits and investments consist primarily of money market mutual funds, repurchase agreements, certificates of deposit, and U.S. Government Treasury Bills.

Deposits in each local and area bank are insured by the FDIC in the amount of $250,000 for time and savings accounts (including NOW accounts), $250,000 for demand deposit accounts (interest-bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of $250,000 for the combined amount of all deposit accounts.

In addition, the Authority has collateral agreements with Frandsen Bank & Trust in the amount of $1,280,018 and $1,989,925 at December 31, 2018 and 2017, respectively.

Custodial Credit Risk

The Authority 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 quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring methods fair value measurements are as follows:

> Present value of expected future cash flow model

> Documented trade history in exact security

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
U.S. Treasury Bonds	$ -	$ -	$ -	$ -
Certificates of Deposit	-	-	-	-
Total	$ -	$ -	$ -	$ -

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
U.S. Treasury Bonds	$ 5,974,946	$ -	$ -	$ 5,974,946
Certificates of Deposit	-	5,335,101	-	5,335,101
Total	$ 5,974,946	$ 5,335,101	$ -	$ 11,310,047

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to the Authority.

The Authority does not have any deposits exposed to custodial credit risk in 2018 and 2017.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of December 31, 2018 and 2017, the Authority's investments were exposed to custodial credit risk as follows:

Investments	2018	2017
Neither insured nor registered and held by counterparty's trust department or agent not in the Laurentian Energy Authority's name	$ 47,019	$ 11,327,805

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2018 the Authority had no investments subject to credit risk. As of December 31, 2017, the Authority's investments were rated as follows:

	Standard & Poors
Investment Type	2017
Money Market Mutual Fund	AAAm
Certificates of Deposits - Negotiable	Not Rated

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer.

At December 31, 2018 and 2017, the Authority's investment portfolio was concentrated as follows:

		Percentage of Portfolio	
Issuer	Investment Type	2018	2017
Frandsen Bank & Trust	Repurchase Agreement CD	0%	5.27%

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As of December 31, 2018, the Authority's investments were as follows:

	Maturity (In Years)		
Investment Type	Fair Value	Less than 1 Year	1 – 5 Years
Repurchase Agreement – Checking Sweep	$ 47,019	$ 47,019	-

As of December 31, 2017, the Authority's investments were as follows:

	Maturity (In Years)		
Investment Type	Fair Value	Less than 1 Year	1 – 5 Years
U.S. Government Treasury Bills	$ 5,974,946	$ 5,974,946	$ -
Repurchase Agreement – CD	700,000	700,000	-
Repurchase Agreement – Checking Sweep	717,758	717,758	-
Money Market Mutual Fund	1,247,162	1,247,162	-
Certificates of Deposits – Negotiable	4,635,101	1,958,393	2,676,708
Totals	$ 13,274,967	$ 10,598,259	$ 2,676,708

INVESTMENT POLICY

No formal investment policy has been adopted by the Authority for any of the above risks.

NOTE 3 – RESTRICTED ASSETS

FUNDS AND ACCOUNTS

Certain proceeds of the Authority's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net position because their use is limited by applicable bond indentures. The following accounts were required to be established at December 31, 2017:

Redemption	-	Used to segregate resources accumulated for debt service payments over the next twelve months.
Reserve	-	Used to report resources set aside to make up potential future deficiencies in the redemption account.
Operating and Liability Reserve Fund	-	Established to ensure the Authority will meet its obligations under the Power Purchase Agreement and Steam Agreement.
Capital Improvement Fund	-	Used to have sufficient funds available to pay extraordinary maintenance and capital improvement costs, including major overhaul costs.

As of December 31, 2018, the Authority has no restricted assets due to the 2005A and 2005B revenue bonds being paid off.

RESTRICTED NET POSITION

The following calculation supports the amount of restricted net position:

	2018	2017
Restricted Assets		
Redemption account	$ -	$ 575,721
Reserve account	-	5,975,038
Operating and liability reserve fund	-	4,176,863
Capital improvement fund	-	1,129,589
Accrued interest receivable	-	17,135
Total Restricted Assets	-	11,874,346
Less: Restricted assets not funded by revenues reserve account	-	(5,975,038)
Current Liabilities Payable From Restricted Assets	-	(114,333)
Total Restricted Net Position	$ -	$ 5,784,975

The purpose of the restricted net position is as follows:

	2018	2017
Debt service	$ -	$ 478,523
Capital improvement	-	1,129,589
Operating and liability reserve	-	4,176,863
Total Restricted Net Position	$ -	$ 5,784,975

NOTE 4 – LEASE RECEIVABLE

On June 1, 2017, the Authority entered into an agreement with Mesabi Bituminous, Inc. (MBI) who will lease and ultimately purchase two conveyors from the Authority. The term of the lease agreement began on June 1, 2017 and shall end on March 31, 2020. The purchase price of the conveyors to be paid to the Authority from MBI is $81,000. The Authority will receive annual payments of $20,000 in 2018 through 2020. A payment of $21,000 was received in 2017 and is being held as a security deposit and will be recognized as the final payment at the end of the lease term. The Authority records the unearned portion of lease revenue as a deferred inflow of resources for reporting purposes.

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2018 follows:

	Balance 1/1/2018	Increases	Decreases	Balance 12/31/2018
Capital assets, not being depreciated/ amortized				
Land and land rights	$ 218,021	$ -	$ -	$ 218,021
Capital assets being depreciated/ amortized				
Land improvements	2,272,059	-	-	2,272,059
Woodyard buildings	432,715	-	-	432,715
Woodyard equipment	2,074,791	-	1,141,386	933,405
Woodyard office equipment	1,407	-	-	1,407
HPUC – boilers and equipment	30,672,049	-	-	30,672,049
VPUC – boilers and equipment	31,695,066	-	-	31,695,066
Total Capital Assets Being Depreciated/Amortized	67,148,087	-	1,141,386	66,006,701
Total Capital Assets	67,366,108	-	1,141,386	66,224,722
Less: Accumulated depreciation/amortization	(19,929,521)	(1,791,087)	899,124	(20,821,484)
Net Capital Assets	$ 47,436,587			$ 45,403,238

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2017 follows:

	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017
Capital assets, not being depreciated/ amortized				
Land and land rights	$ 218,021	$ -	$ -	$ 218,021
Capital assets being depreciated/ amortized				
Land improvements	2,272,059	-	-	2,272,059
Woodyard buildings	432,715	-	-	432,715
Woodyard equipment	2,554,215	290,714	770,138	2,074,791
Woodyard office equipment	1,407	-	-	1,407
HPUC – boilers and equipment	30,672,049	-	-	30,672,049
VPUC – boilers and equipment	31,695,066	-	-	31,695,066
Total Capital Assets Being Depreciated/Amortized	67,627,511	290,714	770,138	67,148,087
Total Capital Assets	67,845,532	290,714	770,138	67,366,108
Less: Accumulated depreciation/ amortization	(18,876,318)	(1,823,341)	770,138	(19,929,521)
Net Capital Assets	$ 48,969,214			$ 47,436,587

NOTE 6 – LONG-TERM OBLIGATIONS

Revenue bonds payable at December 31, 2018 and 2017 consists of the following:

	2018	2017
Cogeneration Revenue Bonds, Series 2005A, dated October 27, 2005; interest rates varying from 4.00% to 5.00% and maturing in the years 2007 to 2021 in increasing amounts from $940,000 in 2007 to $3,095,000 in 2021.	$ -	$ 11,655,000
Taxable Cogeneration Revenue Bonds, Series 2005B, dated October 27, 2005; interest rates varying from 6.29% to 7.19% and maturing in the years 2007 to 2021 in increasing amounts from $1,295,000 in 2007 to $3,090,000 in 2021.	-	11,295,000
Totals		22,950,000
Less: Current portion	-	5,315,000
Long-Term Portion	$ -	$ 17,635,000

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

All revenues net of specified operating expenses are pledged as security for the above revenue bonds until the bonds are defeased.

During 2018, the Authority used cash on hand to defease all outstanding debt. This included $11,655,000 of the 2005A bonds and $11,295,000 of the 2005B revenue bonds which were both callable at the time of the defeasance. In addition, a call premium of $856,207 was required for the 2005B bonds.

LONG-TERM OBLIGATION ACTIVITY

Long-term obligation activity for the year ended December 31, 2018 is as follows:

	1/1/2018 Balance	Additions	Reductions	12/31/2018 Balance	Due Within One Year
Series 2005A Bonds	$ 11,655,000	$ -	$ 11,655,000	$ -	$ -
Series 2005B Bonds	11,295,000	-	11,295,000	-	-
Lease security deposit	21,000	-	-	21,000	-
Unamortized debt discount	(97,091)	-	(97,091)	-	-
Unamortized bond premium	42,951	-	42,951	-	-
Totals	$ 22,916,860	$ -	$ 22,895,860	$ 21,000	$ -

Long-term obligation activity for the year ended December 31, 2017 is as follows:

	1/1/2017 Balance	Additions	Reductions	12/31/2017 Balance	Due Within One Year
Series 2005A Bonds	$ 14,225,000	$ -	$ 2,570,000	$ 11,655,000	$ 2,740,000
Series 2005B Bonds	13,650,000	-	2,355,000	11,295,000	2,575,000
Lease security deposit	-	21,000	-	21,000	-
Unamortized debt discount	(121,880)	-	(24,789)	(97,091)	-
Unamortized bond premium	53,917	-	10,966	42,951	-
Totals	$ 27,807,037	$ 21,000	$ 4,911,177	$ 22,916,860	$ 5,315,000

NOTE 7 – NET POSITION

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the Authority's net investment in capital assets:

	2018	2017
Plant in service	$ 66,224,722	$ 67,366,108
Accumulated depreciation	(20,821,484)	(19,929,521)
Sub-totals	45,403,238	47,436,587
Less: Capital related debt		
Current portion of capital related long-term debt	-	5,315,000
Long-term portion of capital related long-term debt	-	17,635,000
Unamortized debt discount	-	(97,091)
Unamortized bond premium	-	42,951
Sub-totals	-	22,895,860
Add: Unspent debt proceeds		
Reserve account	-	5,975,038
Total Net Investment in Capital Assets	$ 45,403,238	$ 30,515,765

NOTE 8 – COMMITMENTS AND CONTINGENCIES

POWER PURCHASE AGREEMENT

The Authority obtained the rights to a Power Purchase Agreement to sell 50 MW of biomass capacity and associated electricity to Xcel Energy for 20 years, with the start of commercial operation on or before January 31, 2007. The agreement was subsequently amended to 35 MW of biomass capacity and associated electricity. The contract required the project to operate and to produce no less than an average of 35 MW of committed capacity and associated net actual generation during at least 10,512 of Xcel Energy's on-peak hours during each continuous 36-month period. From these requirements, a total committed energy production of 264,600 MWh/year was to be supplied by the Authority to Xcel Energy at an average price of $102.85. MWh over the twenty (20) year contract. Committed Capacity and associated net actual generation in excess of the 35 MW can be utilized by HPUC or VPUC. In 2009 an amendment of the price schedule of the Power Purchase Agreement increased the average price to $106.95/MWh over the twenty (20) year contract.

The contract was further amended in June of 2013 to require an average price of $109.20/MWh over the life of the contract for the net generation associated with the committed capacity beginning in 2014. Also beginning in 2014 the amendment institutes a fuel adjustment clause which allows for reimbursement of the Authority by Xcel for any fuel costs over $3.40/MMbtu. It also provides that the Authority does not deliver more than 110% of the amount scheduled for delivery in any year of the PPA, and does not deliver, on average over any five consecutive years of the PPA, an amount greater than 105% of the amount scheduled for delivery over the five-year period.

POWER PURCHASE AGREEMENT (cont.)

In 2015, several issues surfaced as a result of a contract compliance audit by Xcel. These issues were largely resolved through the Coordinating Committee process established within the PPA. Of note was a dispute over what costs may reasonably be included in determining biomass fuel costs. Depreciation of biomass fuel storage facilities remained the cost in question. Legislative action in early 2016 clarified the question in favor of the Authority and, in August of 2016, a third amendment to the PPA was signed memorializing the various agreements.

In 2017, as a result of changes in legislation pertaining to the Xcel biomass mandate, Xcel and the Authority agreed to terminate the contract. The termination agreement was executed as of July 2, 2018. Details about the termination agreement are in Note 1.

TRANSACTION AGREEMENT

During 2011 the Authority entered into a transaction agreement to supply Minnesota Power with 12.5 MW of energy capacity throughout the year. The new transaction agreement has a term that commenced on January 1, 2012 and terminates on December 31, 2021. Effective July 31, 2018 this agreement was terminated.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (cont.)

BIOMASS FUEL SUPPLY AND PROCUREMENT AGREEMENT

As of December 31, 2017, the Authority had entered into biomass fuel supply agreements with various logging entities for the procurement of biomass fuel. These agreements had various effective dates, termination dates, minimum delivery tonnages and maximum delivery tonnages. The contracts also specified that the biomass meet certain size, moisture content, and purity requirements at a fixed base price. Price adjustments for diesel fuel costs and other cost components are delineated. A list of contracts in effect at December 31, 2017, their minimum contract amount in tons and the end date of the contracts are as follows:

Fuel Supply Agreements	Minimum	End Date
Imhof Chipping, LLC	15,000	12/31/2019
Kuehl Logging	15,000	12/31/2017
Fletcher Trucking	15,000	12/31/2019
Scheff Logging and Trucking	15,000	12/31/2017
Dukek Logging, Inc.	40,000	12/31/2018
Waste Wood Recyclers, LLC	15,000	12/31/2018
Shermer Logging, Inc.	34,000	12/31/2018
J & A Logging, Inc.	34,000	12/31/2018
Wood Forest Products	15,000	12/31/2019
B. Finster Enterprises	75,000	12/31/2018
Total	273,000	

Termination agreements were executed on November 21, 2017 which provided $3,500,000 of consideration to loggers who supplied biomass fuel to the authority. The provisions of the contracts provided a cash buy-out ranging from $275,000 to $450,000 for the termination of the ten Fuel Supply Agreements in place at the time of the termination of the Authority's Power Purchase Agreement with Xcel. Similarly, termination agreements were executed on April 24, 2018 between the authority and two of the contractors responsible for day to day woodyard operations for $36,000 and $54,000. All of the amounts noted above were paid during 2018.

STEAM AGREEMENTS

The Authority has entered into a Steam Sales Agreement with HPUC and a Steam Sales Agreement with VPUC. The two agreements (Steam Agreements) have generally identical terms, except as distinguished below.

Term and General Purpose. The Steam Agreements commenced on October 1, 2006, and terminate concurrently with the Power Purchase Agreement (20 years from the Commercial Operation Date), or, if later, the date on which no Bonds remain unpaid. The Steam Agreements require the Authority to produce, deliver, and sell to HPUC and VPUC, and require HPUC and VPUC, respectively, to purchase, take, and pay for a Minimum Annual Quantity of steam at an established Base Contract Price.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (cont.)

STEAM AGREEMENTS (cont.)

Base Contract Price. The Steam Agreements are take or pay agreements. In each year there is a Minimum Annual Quantity which each Purchaser must take and a Base Contract Price. The Base Contract Price is the same in both the HPUC Steam Agreement and the VPUC Steam Agreement. The Base Contract Price in each agreement starts at $5.90 per Mlb. in the year 2007 and escalates annually at 2% per year to a rate of $8.595 per Mlb. in the year 2027.

If in any given year the Purchaser takes less than the Minimum Annual Quantity of Steam required under the Agreement, it must pay the Minimum Annual Sales amount. The Minimum Annual Sales amount is the amount the Purchaser would have paid if it had taken delivery of the Minimum Annual Quantity at the Base Contract price for the given year, subject to adjustment for fuel cost increases.

Base Contract Price Adjustment Clause for Increased Fuel Costs. The Steam Agreements include a mechanism for an adjustment to the Base Contract Price for increases in fuel costs which exceed the two percent (2.0%) annual increase in the Base Contract Price. In any year or years in which the increase in the cost of fuel over the base year fuel price exceeds the two percent (2.0%) annual increase in the Base Contract Price, the Base Contract Price will be increased to reflect the relative increase in the cost of energy production associated with such fuel cost increases exceeding two percent (2.0%).

Credit Amount. If in any given year the Purchaser takes less than the Minimum Annual Quantity of steam and, therefore, pays the Minimum Annual Sales amount, then it is entitled to a Credit Amount. The Credit Amount is the difference between the Minimum Annual Sales amount and the amount that the Purchaser would have had to pay had it been charged only for the actual quantity of steam taken at a given Contract Price for the given year. The Credit Amount may accumulate from year to year. In any year when the Purchaser takes more than the Minimum Annual Quantity of steam, it may apply all or part of the Credit Amount against the total amount due for the steam taken in such year to the extent the amount due exceeds the Minimum Annual Sales amount for that given year.

Exclusivity. The Steam Agreements provide that the Authority shall be the exclusive provider of Steam to VPUC and HPUC, respectively.

Startup and Transition. The Steam Agreements require the parties to fully cooperate in the production and delivery of steam during the period prior to the Commercial Operation Date with respect to the delivery and acceptance of steam.

As a result of the termination of the Xcel contract, on August 27, 2018, the Authority's Commission authorized termination of the Steam Agreements between LEA and its members effective July 2, 2018.

OPERATING AGREEMENTS

The Authority has entered into an Operation and Management Agreement with HPUC and an Operation and Management Agreement with VPUC. The two agreements have generally identical terms, except as distinguished below. HPUC is the Operator of the Hibbing Facility under the Hibbing Operating Agreement and VPUC is the Operator of the Virginia Facility under the Virginia Operating Agreement.

Term. The Operating Agreements have a term that commenced on October 1, 2006, and terminates concurrently with the Power Purchase Agreement (20 years from the Commercial Operation Date) or, if later, the date on which no Bonds remain unpaid.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (cont.)

OPERATING AGREEMENTS (cont.)

Management, Administration, and Control. Under the Operating Agreements, the Authority will appoint an Owner's Representative and the Operators will each, respectively, designate an Operator's representative, each of whom will serve as on-site managers for the Facility. The Owner's Representative will provide the general direction for the operation of the Facility, and the Operator's Representative in each Facility will have the day-to-day operational and managerial authority over each Facility.

Compensation to Operator. As compensation for the operation and management of the Facilities, the Authority will pay to the Operator (1) the Operating Fee and (2) the Approved Operating Costs.

Operating Fee. The Operating Fee is an annual amount for payment of all direct and indirect costs of the Operator's employees necessary to operate each Facility. The Operating Fee for the Hibbing Facility ranges from $2,341,246 in the year 2007 to a high of $2,636,623 in the year 2013 to $2,609,226 in the year 2026. The Operating Fee for the Virginia Facility ranges from $2,199,638 in the year 2007 to a high of $2,477,150 in the year 2013 to $2,451,410 in the year 2027.

Approved Operating Costs. The Approved Operating Costs are to be established on an annual basis for each Facility pursuant to an Annual Operating Plan, an Annual Operating Budget, and a five year capital budget. The Operator has the responsibility for preparation of the Annual Operating Plan in consultation with the Authority. The Authority and the Operator have joint responsibility for the preparation of the Annual Operating Budget and the five year capital budget. The governing board of the Authority and the governing commission of the Operator must each approve the Annual Operating Budget before December 1 of each year (the "Approved Annual Budget").

The Approved Annual Budget establishes the Approved Operating Costs. Approved Operating Costs include all items of cost and expense associated with the operation and management of the Facility for the purpose of performing the Owner's obligations under the Power Purchase Agreement and the Steam Sales Agreements.

The Approved Annual Budget and Approved Operating Costs will exclude: (1) the direct and indirect costs of employees (which is provided for in the Operating Fee), (2) the expenses and costs not related to the operation of the Facilities for the purposes of the Power Purchase Agreement and the Steam Sales agreement (such as costs related to the Operator's activities as a municipal distributor of steam and electricity, and all of the marginal costs associated with the production of Excess Energy by VPUC and HPUC as permitted under the Leases). If VPUC or HPUC requires the production of Excess Energy, as permitted under the Leases, the marginal cost of production of the Excess Energy will be the responsibility of the respective Operator producing the Excess Energy.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (cont.)

OPERATING AGREEMENTS (cont.)

Operator's Obligations and Authority. The Operators are required to operate each Facility for the benefit of the Owner and for the purposes of the Project, including specifically, but not limited to, the generation of electricity for the Power Purchase Agreement and the generation of steam for the Steam Sales Agreements. The Operators' obligations include: (1) operating the Facilities in compliance with all environmental laws and operating permits; (2) keeping and maintaining the Facilities in good, safe, and efficient operating condition and in compliance with all laws; (3) operating the Facilities in compliance with Prudent Utility Practice, as defined in the Operating Agreements; (4) keeping and maintaining accurate operating records and logs; (5) obtaining and maintaining all permits necessary for the operations of the Facilities; (6) maintaining and repairing the Facilities to the extent provided for in the Approved Operating Costs; (7) making capital improvements to the extent provided for in the Approved Operating Costs; (8) providing a workforce sufficiently qualified and trained in industry practices; (9) implementing a safety and security program; and (10) assisting in the startup, commissioning, and transition of the Facility to the Project.

As a result of the termination of the Xcel contract, on August 27, 2018, the Authority Commission authorized termination of the Operating agreements between the Authority and its members effective July 2, 2018.

LEASES

The Authority has entered into a lease with HPUC and a lease with VPUC. The two leases have substantially identical terms.

Term and Rent. The term of each Lease commences on the Construction Commencement Date and terminates concurrently with the Power Purchase Agreement (20 years from the Commercial Operation Date) or, if later, the date on which no Bonds remain unpaid. Each Lease provides for the Authority to pay rent of $25,000 annually.

Leased Premises and Leased Equipment. The Authority has leased the Leased Premises and the Leased Equipment at each Facility. The Leased Premises include the real property upon which the Energy and Generation Plant of VPUC and HPUC are located. The Leased Equipment includes all plant, fixtures, equipment, and tools associated with the generation of energy at the Leased Premises. The Leased Equipment specifically includes boilers, generators, turbines, cooling towers, environmental equipment, and fuel supply systems at each Facility.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (cont.)

LEASES (cont.)

Limitation on Lease Capacity; Reservation of Excess Energy Capacity. Under the Leases, the Authority's rights in and to the Facilities include that portion of each Facility's total energy capacity necessary collectively to satisfy: (1) the Committed Capacity and Committed Energy Production requirements under the Power Purchase Agreement, (2) the steam quantity requirements under each respective Steam Sales Agreement, and (3) the energy necessary to operate each Facility. HPUC and VPUC, respectively, as Lessors, reserve and are granted the right to the energy capacity and energy production of each Facility in excess of that portion of each Facility's total energy capacity necessary collectively to satisfy: (1) the Committed Capacity and Committed Energy Production requirements under the Power Purchase Agreement, (2) the steam quantity requirements under each respective Steam Sales Agreement, and (3) the energy necessary to operate each Facility (which excess is termed herein the "Excess Capacity" and "Excess Energy"). HPUC and VPUC are permitted to use each Facility to produce Excess Capacity and Excess Energy for their own use and sale to third parties. The rights in the Excess Capacity and Excess Energy include the Excess Capacity and Excess Energy available from the wood boilers to be constructed and owned by the Authority as part of the Project.

Authority's Obligations. Under the Leases, the Authority is obligated as follows: (1) to obtain and maintain all permits necessary for the construction of the Authority's Improvements (namely the boilers and wood handling equipment); (2) to use the Facilities for the purpose of producing energy equal to the energy necessary to satisfy the requirements of the Power Purchase Agreement, the Steam Sales Agreements, and the operation of the Facilities; (3) to prepare an annual operating plan by December 1 of each year; (4) to maintain and repair the Facilities, and to make capital improvements to the Facilities; (5) to maintain a commercially reasonable safety and security program; (6) pay all taxes, if any, upon the Leased Equipment and the Leased Premises; and (7) maintain certain insurance coverage with respect to the Facilities.

Improvements. The Authority is authorized under the Leases to make Improvements to the Facilities, including the construction of the wood boilers, wood handling systems, and ancillary systems and equipment which are to be financed by the Bonds for the Project, subject to the consent of VPUC and HPUC, respectively, which consent may not be unreasonably withheld. Title to the Improvements of the Authority remains with the Authority during the term of the Lease. At the expiration or termination of the Leases, all Improvements of the Authority (including the Project) become the property of VPUC and HPUC, respectively.

As a result of the termination of the Xcel contract, on August 27, 2018, the Authority's Commission authorized termination of the Lease Agreements between the Authority and it's members effective July 2, 2018.

LETTER OF CREDIT

The Authority, pursuant to the Power Purchase Agreement with Xcel Energy is required to provide a $700,000 Irrevocable Standby Letter of Credit to Xcel Energy throughout the term of the agreement. The letter was issued by Frandsen Bank and Trust (formerly Queen City Savings Bank) and is secured by a Certificate of Deposit totaling $700,000 as of December 31, 2017.

As a result of the termination of the Xcel contract, Xcel returned the Letter of Credit which allowed for the removal of the $700,000 Certificate of Deposit collateral.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (cont.)

BIOMASS MANDATE

Renewable electricity is electricity produced as defined in Minn. Stat. Section 216B.2424. Generally stated, 75% of the energy used to produce renewable electricity must be from biomass sources and 25% of that biomass must be from closed loop sources as defined in the statute. The contract allows the Authority a six-year exemption from the requirements from the beginning of the contract signed in 2005, with the exemption ending in 2011 on the condition that the electricity produced over the life of the contract meets the requirements. Material remedies are available to Xcel Energy in the event these biomass mandates are not met.

NOTE 9 – RISK MANAGEMENT

The Authority is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; and errors and omissions. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in the last three years. There were no significant reductions in coverage compared to the prior year.

NOTE 10 – SIGNIFICANT CUSTOMERS

In 2018 and 2017, the Authority's customers met the definition of significant customers under generally accepted auditing standards.

The 2018 breakdown of sales by each customer is as follows:

Customer	Revenues	% of Total Revenues
Hibbing Utilities	$ 1,580,116	7%
Virginia Utilities	2,336,396	12%
Xcel Energy	16,300,367	81%

The 2017 breakdown of sales by each customer is as follows:

Customer	Revenues	% of Total Revenues
Hibbing Utilities	$ 2,747,632	7%
Virginia Utilities	4,264,535	12%
Xcel Energy	30,525,791	81%

LAURENTIAN ENERGY AUTHORITY I, LLC

BIOMASS MANDATE STATISTICS
For the Years Ended December 31, 2007 through 2018
(UNAUDITED)

Year	Renewable MW Generated	Annual Mix
2007	242,200	37% biomass, 63% other sources
2008	266,900	42% biomass, 58% other sources
2009	286,800	58% biomass, 42% other sources
2010	267,300	72% biomass, 28% other sources
2011	255,600	82% biomass, 18% other sources
2012	265,700	85% biomass, 15% other sources
2013	270,600	82% biomass, 18% other sources
2014	243,000	81% biomass, 19% other sources
2015	262,966	68% biomass, 32% other sources
2016	264,536	81% biomass, 19% other sources
2017	263,195	78% biomass, 22% other sources
2018	138,159	62% biomass, 38% other sources

INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE

To the Board of Directors
Laurentian Energy Authority I, LLC
Virginia, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Laurentian Energy Authority I, LLC (Authority) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 31, 2019.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions and tax increment financing. Our audit considered all of the listed categories except tax increment financing because it was not applicable and that we did not test for compliance with the provisions for contracting and bidding because compliance is not required per the Virginia City Council Resolution No. 04129.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions.* However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the Authority and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 31, 2019