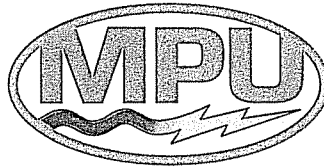


*Joe, Permite  
+ Insep  
2-17-14*



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## MANITOWOC PUBLIC UTILITIES

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1303 South 8<sup>th</sup> Street P.O. Box 1090 Manitowoc, WI 54221-1090 920-683-4600 FAX 920-686-4348 [www.mpu.org](http://www.mpu.org)

February 13, 2014

Honorable Mayor Justin Nickels  
And Members of Manitowoc Common Council  
Manitowoc City Hall  
900 Quay Street  
Manitowoc, WI 54220

Honorable Mayor and Members of Council:

As required by the amended resolution creating the reporting and action protocol for and between the City Council and MPU Commission, I am pleased to present the following highlights for 2013 of the activities of Great Lakes Utilities - a municipal electric company organized under Wisconsin statute, §66.0825.

1. The Officers of the Great Lakes Utilities are as follows:
  - Chair: Jem Brown, Wisconsin Rapids Water and Light Utilities
  - Vice Chair: VACANT
  - Secretary: Dennis Dederig, Kiel Utilities
  - Treasurer: Travis Cooke, Trempealeau Utilities
2. Joe Pacovsky retired from Marshfield Utilities in 2013 and hence from Great Lakes Utilities after serving as the Chair for approximately 10 years.
3. As of December 31, 2013, there are a total of twelve (12) members of GLU. The members are: Bangor, Clintonville, Cornell, Escanaba, MI, Kiel, Manitowoc, Marshfield, Medford, Shawano, Trempealeau, and Wisconsin Rapids.
4. Five members withdrew from GLU, as they have executed a 5 year power supply agreement with an Ohio based investor-owned utility. Those members, all associated with the so-called "GLU West" group, are Barron, Bloomer, Cadott, Rice Lake, and Wakefield, MI. All of these members continue to purchase wind energy from Great Lakes Utilities.
5. Three members – Bangor, Cornell and Trempealeau assigned their existing power supply contracts to GLU and entered into a Power Purchase and Sale Agreement with GLU, effective November 1, 2013.

6. GLU's Mission Statement states: *Great Lakes Utilities is dedicated to provide its member public power communities a reliable and low-cost wholesale power supply. The Vision Statement is: Create and maintain a non-profit joint action power supply agency; enhance the benefits of municipal public power ownership; develop economical and competitive power supply plans and projects; and increase cooperation among members.*
7. Nilaksh Kothari is the Manager of Administrative Services for GLU-related activities.
8. In October 2011, GLU agreed to a fixed price 20 year Power Purchase Agreement (PPA) with Lakeswind, LLC, a subsidiary of Project Resources Corporation, for approximately 40 MW of wind power from a new wind farm proposed to be constructed in Western Minnesota. This PPA locks in highly competitive wind prices for twenty years and will enable participating GLU project members to meet their renewable requirements mandate in a least cost manner. Lakeswind, LLC, sold its interest to Rockland Partners, LLC, Texas (Rockland) in June 2013. Rockland is a capital investment firm specializing in renewable energy projects. The transaction assured financing and completion of the Lakeswind project and GLU is now working with Rockland to prepare for commercial operations of the facility. The project is scheduled to be on line by March 31, 2014.
9. GLU also provides energy market services for all Lakeswind project offtakers, facilitating communications with MISO for wind dispatching and invoicing purposes. These energy market services are provided through separate service schedules under the operating services agreement, utilizing the services and resources of MPU.
10. GLU continues providing power supply services to members Wisconsin Rapids, Kiel, Manitowoc, Shawano and Clintonville (the latter two through Badger Power Marketing Authority, Inc.) under an integrated system rate, pursuant to 25-year requirements contracts with or on behalf of those members.
11. GLU's power supply costs are anticipated to remain approximately the same in 2014 as compared to 2013. You may recall that the 2013 price was 6% lower in 2013 as compared to 2012. The actual impact to individual power supply members depends on load factor.
12. GLU and MPU continue to benefit from the 10-year, 77 MW capacity contract executed in 2011, under which GLU utilizes base load capacity from MPU and MPU purchases 77 MW of capacity and energy from GLU. The arrangement has allowed MPU to mitigate potential rate increases from loss of its largest electric and steam customer, while providing GLU power supply members with a hedge against market risk and load loss.
13. GLU continues exercising market participant responsibilities with the Midcontinent Independent System Operator, Inc. ("MISO") on behalf of its power supply members. MISO manages the transmission system through the operation of energy, capacity and ancillary service markets. Transmission service in the eastern half of Wisconsin is

provided by the American Transmission Company, LLC, which operates the transmission system in the eastern half of Wisconsin over which power is delivered to GLU member load.

14. GLU provides energy market services to Escanaba, MI and Marshfield to facilitate communications between their municipally-owned generating units and MISO for dispatching purposes. These services are provided under a master operating services agreement, again utilizing the services and resources of MPU. Other member services, such as retail rate case preparation and AMI implementation assistance are also performed for GLU by MPU through separate service schedules under the master operating services agreement. MPU also provides administrative services to GLU under an existing service contract, under which GLU reimburses all of MPU's costs.
15. GLU continues to manage a diverse portfolio of power supply resources, which consists of long-term power supply arrangements with several suppliers, including Alliant Energy, Wisconsin Public Service Corporation, Wisconsin Electric Power Company and WPPI Energy. GLU is also a participant in the North American Energy Market Association, and as such, has entered into master agreements with numerous suppliers to enable short term capacity and energy market transactions. Such transactions are subject to an Operating Procedure Manual adopted by GLU's Board of Directors. Several short term deals were struck by GLU in 2013 to allow its power supply members to benefit from favorable energy market prices.
16. GLU is a member of the Transmission Access Policy Study Group (TAPS), which is an independent, non-profit trade association of electric utilities focused on transmission issues. MPU and Marshfield Utilities share the costs of this membership.
17. The GLU website was updated and launched in December 2013. The new website has a member only section.
18. GLU continues to participate in a coalition of municipal power agencies in federal energy regulatory commission ("FERC") proceedings related to the operation and administration of the MISO energy markets.
19. The Board has been meeting on a monthly basis with most meetings occurring in Wisconsin Rapids or via teleconference.
20. GLU continues to use the services of Attorney Michael Postar of Duncan, Weinberg, Genzer & Pembroke in Washington D.C. for representation on FERC-related issues and Attorney Richard Heinemann of Boardman & Clark, LLP in Madison, as general legal counsel.
21. The agendas of each meeting are forwarded to the City Clerk before each regularly scheduled meeting. The meeting minutes are also forwarded on a regular basis to the City Clerk.

22. The 2012 Annual Report, approved by the GLU Board at its Annual Meeting in October 2013, is attached. The financial statements of GLU are being audited by Schenck Associates of Green Bay, Wisconsin.

Please advise me if you have any questions on the report or feel free to call me at 686-4351. Again, I want to take this opportunity to thank you for your support of our Utility and the GLU.

Sincerely,



Nilaksh Kothari, P. E.  
General Manager

Attachment

cc: MPU Commission w/o attachment

**ANNUAL REPORT  
OF  
GREAT LAKES UTILITIES**

**FOR THE YEAR ENDING  
DECEMBER 31, 2012**

## **2012 ANNUAL REPORT**

### **HISTORY AND MISSION OF GREAT LAKES UTILITIES**

Great Lakes Utilities (GLU) is a municipal electric company formed under Section 66.0825, Wis. Stats. As such, it is a public body and a political subdivision of the State of Wisconsin, with separate legal status from that of its members. GLU was formed in 2000 in order to become a vehicle for obtaining low cost and reliable electric power for its members.

In 2007, GLU executed long term (25-year) power supply contracts to serve the Power Supply Members (Manitowoc, Kiel, Wisconsin Rapids, and the cities of Clintonville and Shawano (through the Badger Power Marketing Authority). In 2009, GLU became an active market participant in the Midwest Independent Transmission System Operator, Inc. (MISO) on behalf of its full requirements Power Supply Members, and created the GLU load zone in the MISO energy markets.

In 2011, GLU added the Wisconsin cities of Bangor, Barron, Bloomer, Cadott, Cornell, Spooner, and Trempealeau, as well as the Michigan cities of Escanaba and Wakefield.

### **SIGNIFICANT ACCOMPLISHMENTS – 2012**

GLU terminated its asset sales agreement with Consolidated Water Paper Company in December, 2012. The agreement, originally entered into in 2010 to acquire 35 MW of hydroelectric facilities desired to help meet GLU member renewable energy requirements, had encountered a number of regulatory issues and ultimately stalled after CWPCo's parent company, New Page-Wisconsin, filed for bankruptcy protection.

GLU continues exercising market participant responsibilities with the Midwest Independent Transmission System Operator, Inc. (now known as the "Midcontinent Independent System Operator, Inc. " or "MISO") on behalf of its power supply members. MISO operates the transmission system over which power is delivered to GLU member load. These services are performed for GLU by Manitowoc Public Utilities under a master operating services agreement, which was updated and approved in 2012.

The GLU Board of Directors approved a financial risk management policy in 2012 to ensure adequate controls are in place for all its power supply project activities.

GLU manages a diverse portfolio of power supply resources, which consists of long-term power supply arrangements with several suppliers, including Alliant Energy, Wisconsin Public Service Corporation, Wisconsin Electric Power Company and WPPI Energy. GLU also entered into North American Energy Market Association (or "NAEMA") master agreements with numerous other suppliers to enable short term capacity and energy market transactions, subject to an Operating Procedure Manual adopted by GLU's Board of Directors. Several short term energy transactions were executed by GLU in 2012 to allow its power supply members to benefit from favorable MISO energy market prices.

A two day strategic planning retreat for the GLU Board of Directors was held in August, 2012 in Stevens Point, Wisconsin. The primary focus of the retreat was to integrate the new members who joined GLU in 2011, with presentations on the history and purpose of GLU's formation and the ways in which GLU achieves value for its members. The new members indicated they were interested in learning more about power supply planning and potentially establishing power supply committee for the "GLU West" group. Numerous proposals were also discussed for enhancing GLU's communications with Board members and member communities.

GLU continues to participate in a coalition of municipal power agencies in federal energy regulatory commission ("FERC") proceedings related to the operation and administration of the MISO energy markets.

## **MEMBER COMMUNITIES**

Bangor, Barron, Bloomer, Cadott, Cornell, Clintonville, Escanaba (Michigan), Kiel, Manitowoc, Marshfield, Medford, Rice Lake, Shawano, Spooner, Trempealeau, Wakefield (Michigan) and Wisconsin Rapids.

The combined 2012 load of the GLU members was approximately 460 MW and 2,550,000 MWhs. Load served by GLU for its Power Supply Members was approximately 225 MW and 1,299,000 MWhs.

## **2012 BOARD OF DIRECTORS**

Steve Baker, Bangor  
Okho Bohm Hagedorn, Clintonville  
Jem Brown, Wisconsin Rapids  
Travis Cooke, Trempealeau (Treasurer)  
Dennis Dederling, Kiel (Secretary)  
Dave Dejongh, Cornell  
John Fales, Medford  
Mike Furmanski, Escanaba  
Rick Jari, Barron  
Brian Knapp, Shawano  
Nilaksh Kothari, Manitowoc  
William Marx, Spooner  
Joseph Pacovsky, Marshfield (Chair)  
Pete Paulson, Bloomer  
Scott Reimer, City of Rice Lake (Vice President)  
John Granato, Wakefield  
Ray Weiland, Cadott





## **Management's Discussion and Analysis**

**December 31, 2012**

The management of Great Lakes Utilities ("GLU") offers all parties interested in the financial position of GLU an objective, easy to read overview and analysis of GLU's financial performance during the year ending December 31, 2012. Please read the narrative in conjunction with GLU's financial statements.

### **Financial Highlights from 2012**

GLU had negotiated and executed an Asset Sales Agreement (ASA) with Consolidated Water Paper Company (CWPCO) in November, 2010 for the acquisition of five dams and associated facilities on the Wisconsin River for a total of approximately 35 MW hydroelectric generations. The acquisition was expected to be completed before the end of the calendar year 2011 subject to approval by the Public Service Commission. This acquisition was contemplated to help participating GLU members meet renewable energy requirements mandated by the state of Wisconsin. Regulatory issues on a related sale of CWPCO's distribution assets to the City of Wisconsin Rapids put the intended acquisition of these assets in jeopardy. The parties agreed to cease working on the transaction or pursuing regulatory approval. In December 2012, the GLU board terminated the ASA for this project.

In 2012, GLU signed an agreement with the City of Escanaba to provide services for interfacing the City's load and generation with the Midwest Independent Transmission System (MISO).

In October 2011, GLU agreed to a fixed price 20 year Power Purchase Agreement with Lakeswind, LLC for wind power from a new 50 MW wind farm proposed in Western Minnesota. The project was expected to become operational in the first quarter of 2013. This PPA locks in highly competitive wind prices for twenty years and will ensure participating GLU project members meet their renewable requirements mandate in a least cost manner. In 2012, GLU completed the acquisition of transmission service for this project and executed an amendment to allow Lakeswind LLC additional time to obtain financing. The project is currently expected to become operational in the first quarter of 2014.

In 2011, GLU and MPU entered into a 10-year, 70 MW capacity purchase contract. The contract enables GLU to purchase 70 MW of base load capacity from MPU and dispatch generation as needed for the energy while allowing MPU to purchase 70 MW capacity and energy from GLU for the same period.

\$1.9 million in notes payable to members was obtained so that GLU could meet credit requirements necessary to function as a market participant in the MISO energy markets on behalf of GLU members. The deposit is recorded in the Statement of Net Assets as an asset.

Please see the Condensed statements and the presented management comments for additional detailed financial highlights.

## Overview of the Financial Statements

Great Lakes Utilities is a municipal electric company formed under Wisconsin Statute 66.0734. As such, it is a public body and a subdivision of the State of Wisconsin with a legal nature and authority separate from its municipal members. GLU was formed in 2000 as a power supply alternative for members in order to increase their ability to obtain reliable electric capacity and energy at reasonable costs.

The Statement of Net Position (Table 1) and the Statement of Revenue, Expenses, and Changes in Net Position (Table 2) provide an indication of GLU's change in financial condition during the last year. GLU's net position reflects the difference between assets and liabilities. The Statement of Revenues, Expenses and Changes in Net Position reflect the income and expenses of GLU for the year.

### Utility Financial Analysis

**Table 1**  
**Condensed Statement of Net Position**

	2012	2011	Dollar Change	Percent Change
Current Assets	\$ 14,906,607	\$ 8,480,211	\$ 6,426,396	75.8%
Hydro Project - Receivable - Refund of Advance	-	1,000,000	(1,000,000)	
Restricted Assets	409,178	218,428	190,750	87.3%
Net Plant	-	30,628	(30,628)	-100.0%
Other Assets	1,900,799	1,320,799	580,000	43.9%
<b>Total Assets</b>	<b>\$ 17,216,584</b>	<b>\$ 11,050,066</b>	<b>\$ 6,166,518</b>	<b>55.8%</b>
Current Liabilities and Other Accrued Expenses	\$ 6,776,040	\$ 6,819,306	\$ (43,266)	-0.6%
Member Rate Stabilization Deposits	409,178	218,428	190,750	87.3%
Member Advances for Hydro Project	-	1,000,000	(1,000,000)	100.0%
Notes Payable to Members	1,900,000	900,000	1,000,000	111.1%
<b>Total Liabilities</b>	<b>9,085,218</b>	<b>8,937,734</b>	<b>147,484</b>	<b>1.7%</b>
Net investment in capital assets	-	(28,856)	28,856	-100.0%
Unrestricted	8,131,366	2,141,188	5,990,178	279.8%
<b>Total Net Position</b>	<b>8,131,366</b>	<b>2,112,332</b>	<b>6,019,034</b>	<b>284.9%</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 17,216,584</b>	<b>\$ 11,050,066</b>	<b>\$ 6,166,518</b>	<b>55.8%</b>

#### Variance Explanations

- The hydro project was terminated in 2012.
- An additional \$1M deposit was made with MISO in 2012. These funds were borrowed from three members.

**Table 2**  
**Condensed Statement of Revenues, Expenses and Changes in Net Position**

	2012	2011	Dollar Change	Percent Change
Power Supply Billings	\$ 89,581,998	\$ 69,366,695	\$ 20,215,303	29.1%
Member Assessments	152,000	224,143	(72,143)	-32.2%
<b>Total Revenues</b>	<b>89,733,998</b>	<b>69,590,838</b>	<b>20,143,160</b>	<b>28.9%</b>
Power Supply Expenses	83,005,009	66,719,943	16,285,066	24.4%
Hydro Expenses	10,492	312,144	(301,652)	-96.6%
Wind Expenses	27,694	155,461	(127,767)	
Administrative and General Expenses	684,245	537,213	147,032	27.4%
<b>Total Expenses</b>	<b>83,727,440</b>	<b>67,724,761</b>	<b>16,002,679</b>	<b>23.6%</b>
Operating Income	6,006,558	1,866,077	4,140,481	221.9%
Nonoperating Revenues (Expenses)	12,476	(6,731)	19,207	-285.4%
Change in Net Position	6,019,034	1,859,346	4,159,688	223.7%
Net Position - Beginning	2,112,332	252,986	1,859,346	735.0%
Net Position - Ending	\$ 8,131,366	\$ 2,112,332	\$ 6,019,034	284.9%

**Variance Explanations**

- Power supply billings increased \$20.2M due to increased volumes. Power supply expenses increased \$16.3M.

**Table 3**  
**Net Plant Activity**

	2012	2011	Dollar Change	Percent Change
Equipment	\$ 237,935	\$ 237,935	\$ -	0.0%
Less Accumulated Depreciation	(237,935)	(207,307)	(30,628)	14.8%
Net Capital Assets	\$ -	\$ 30,628	\$ (30,628)	-100.0%

**Variance Explanations**

- Nothing significant to report.

## **Power Supply Cost Factors/ Other Issues**

GLU's policy is to manage power supply costs in order to achieve a low risk profile. GLU manages power supply costs for its members as follows:

- The long-term power supply contracts presently in place are as follows:
  - Wisconsin Public Service - 0 to 100 MWs through 2031.
  - Alliant Energy - 25MWs through 2017.
  - WE Energies - 30 to 80 MWs through 2029.
- GLU has a long-term contract with Manitowoc Public Utilities for the purchase of 70 MW of capacity and associated energy.
- GLU makes short-term, non-firm purchases and sales when economic to do so via participation in the MISO market.
- GLU receives renewable energy through its contracted power supply purchases.

### **Contacting Financial Management**

This financial report is designed to provide our members, investors, and other interested parties with a general overview of the utilities' financial operations and condition. If you have questions regarding the information provided in this report or wish to request additional financial information, contact the Administrative Services Manager, Great Lakes Utilities, at P.O. Box 965, Manitowoc, WI 54221-0965.

General information relating to Great Lakes Utilities can be found at [www.greatlakesutilities.org](http://www.greatlakesutilities.org).

**FINANCIAL STATEMENTS**

**GREAT LAKES UTILITIES**  
Statement of Net Position  
December 31, 2012  
With Comparative Information as of December 31, 2011

	2012	2011
<b>ASSETS</b>		
Current Assets		
Cash	\$ 8,350,961	\$ 1,623,807
Accounts receivable	6,555,646	7,856,404
Total Current Assets	<u>14,906,607</u>	<u>9,480,211</u>
Noncurrent Assets		
Restricted cash and investments	409,178	218,428
MISO collateral deposit	1,900,799	1,320,799
Capital Assets		
Equipment	237,935	237,935
Accumulated amortization	<u>(237,935)</u>	<u>(207,307)</u>
Total Noncurrent Assets	<u>2,309,977</u>	<u>1,569,855</u>
Total Assets	<u>17,216,584</u>	<u>11,050,066</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	<u>6,776,040</u>	<u>6,759,822</u>
Noncurrent Liabilities		
Accounts payable - Manitowoc Public Utilities	-	59,484
Rate stabilization deposits	409,178	218,428
Advance from members for hydroelectric plant purchase	-	1,000,000
Notes payable	<u>1,900,000</u>	<u>900,000</u>
Total Noncurrent Liabilities	<u>2,309,178</u>	<u>2,177,912</u>
Total Liabilities	<u>9,085,218</u>	<u>8,937,734</u>
<b>NET POSITION</b>		
Net investment in capital assets	-	(28,856)
Unrestricted	<u>8,131,366</u>	<u>2,141,188</u>
Total Net Position	<u>\$ 8,131,366</u>	<u>\$ 2,112,332</u>

The accompanying notes are an integral part of these statements.

**GREAT LAKES UTILITIES**  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended December 31, 2012  
With Comparative Information for the Year Ended December 31, 2011

	2012	2011
Operating Revenues		
Member assessments	\$ 152,000	\$ 224,143
Power supply		
Billings	89,301,404	69,148,969
Supply charges	280,594	217,726
Total Operating Revenues	<u>89,733,998</u>	<u>69,590,838</u>
Operating Expenses		
Power supply		
Purchased power	83,000,076	66,715,010
Phone lines	4,933	4,933
Outside services		
Legal and consulting	247,643	177,224
Management services	94,718	48,897
Technical services	283,365	688,635
Insurance expense	10,390	10,390
Administrative and general		
Secretarial services	7,557	2,282
Accounting services	3,200	2,900
Supplies and other expenses	44,930	40,500
Amortization	30,628	33,990
Total Operating Expenses	<u>83,727,440</u>	<u>67,724,761</u>
Operating Income	<u>6,006,558</u>	<u>1,866,077</u>
Nonoperating Revenues (Expenses)		
Investment return	26,548	1,076
Interest expense	(14,072)	(7,807)
Total Nonoperating Revenues (Expenses)	<u>12,476</u>	<u>(6,731)</u>
Change in Net Position	6,019,034	1,859,346
Net Position - January 1	<u>2,112,332</u>	<u>252,986</u>
Net Position - December 31	<u>\$ 8,131,366</u>	<u>\$ 2,112,332</u>

The accompanying notes are an integral part of these statements.

**GREAT LAKES UTILITIES**  
Statement of Cash Flows  
For the Year Ended December 31, 2012  
With Comparative Information for the Year Ended December 31, 2011)

	2012	2011
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 91,034,756	\$ 67,453,931
Cash paid to suppliers	(83,680,594)	(66,311,423)
Net Cash Provided by Operating Activities	<u>7,354,162</u>	<u>1,142,508</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Rate stabilization deposits received (paid)	190,750	(81,137)
Notes payable proceeds	1,000,000	-
Interest paid on notes	(14,072)	(7,807)
MISO collateral deposit	(580,000)	(400,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>596,678</u>	<u>(488,944)</u>
<b>Cash Flows from Capital Financing Activities</b>		
Repayment of amount due to Manitoowoc Utilities	(59,484)	(59,484)
Advance repaid to members for hydroelectric plant purchase	(1,000,000)	-
Net Cash Provided (Used) by Capital Financing Activities	<u>(1,059,484)</u>	<u>(59,484)</u>
<b>Cash Flows from Investing Activities</b>		
Interest received	26,548	1,076
<b>Net Change in Cash and Cash Equivalents</b>	6,917,904	595,156
<b>Cash and Cash Equivalents - January 1</b>	<u>1,842,235</u>	<u>1,247,079</u>
<b>Cash and Cash Equivalents - December 31</b>	<u>\$ 8,760,139</u>	<u>\$ 1,842,235</u>
<b>Reconciliation to Statement of Net Position</b>		
Cash and investments included in current assets	\$ 8,350,961	\$ 1,623,807
Restricted cash and investments	409,178	218,428
Total Cash and Cash Equivalents	<u>\$ 8,760,139</u>	<u>\$ 1,842,235</u>
<b>Reconciliation of Operating Income to Net Cash Provided</b>		
by Operating Activities:		
Operating income	\$ 6,006,558	\$ 1,866,077
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization	30,628	33,990
Changes in assets and liabilities:		
Accounts receivable	1,300,758	(2,136,907)
Accounts payable	16,218	1,379,348
Net Cash Provided by Operating Activities	<u>\$ 7,354,162</u>	<u>\$ 1,142,508</u>

The accompanying notes are an integral part of these statements.



**GREAT LAKES UTILITIES**  
Notes to Financial Statements  
December 31, 2012

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

The accounting policies of Great Lakes Utilities (GLU) conform to accounting principles generally accepted in the United States of America for local governmental units. A summary of GLU's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Reporting Entity

Great Lakes Utilities is a municipal electric company formed under Wisconsin Statute 66.0825. As such, it is a public body and a subdivision of the State of Wisconsin with a legal nature and authority separate from its municipal members. GLU was formed by several Wisconsin municipalities in 2000 as a power supply alternative for members in order to increase the members' ability to obtain firm electric power and energy at reasonable costs.

2. Basis of Accounting

The accrual basis of accounting is utilized by GLU. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Member assessments are determined and billed annually to cover general and administrative budget items. Special assessments may be determined and billed for special projects. Special assessments of \$50,000 were billed in 2012 to cover the preliminary costs associated with the wind power project feasibility study.

3. Enterprise Fund Accounting Principles

GLU accounts for its operations as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business with the intent that the costs (expenses, including depreciation) of providing services be financed primarily through user charges.

4. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position

a. Cash

Cash deposits consist of time deposits with a financial institution and are carried at cost. For purposes of the statement of cash flows, all cash deposits with a maturity of three months or less are considered to be cash equivalents.

b. Accounts Receivable

Accounts receivable are recorded at gross amount with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the financial statements.

c. Capital Assets

Capital assets, which include property, plant, equipment assets, are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or higher and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the Utility are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	Years
Equipment	6

**GREAT LAKES UTILITIES**  
Notes to Financial Statements  
December 31, 2012

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

d. Deferred Outflows/Inflows of Resources

GLU implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2012. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. GLU currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. GLU currently does not have any items that qualify for reporting in this category.

e. Net Position

Equity is classified as net position and displayed in three components:

- 1) *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 is 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.
- 2) *Restricted net position* - This component of net position consists of constraints placed on net position 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.
- 3) *Unrestricted net position* - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets".

5. Use of Estimates

The 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

6. Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with GLU's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

**GREAT LAKES UTILITIES**  
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**NOTE B - CASH AND INVESTMENTS**

Deposits of GLU are subject to custodial credit risk. Presented below is a discussion of GLU's deposits and the related risk.

Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for time and savings deposits and \$250,000 for demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 per official custodian per depository institution. In addition, GLU's non-interest bearing transaction accounts are fully insured through December 31, 2012. As of January 1, 2013 GLU's non-interest bearing transaction accounts are combined with its interest bearing demand deposits for FDIC insurance coverage. Also, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available.

On December 31, 2012, \$5,918,958 of GLU's deposits with financial institutions were in excess of federal and state depository insurance limits. No amounts were collateralized.

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. GLU does not have an additional custodial credit risk policy.

**NOTE C - RESTRICTED ASSETS**

Restricted assets on December 31, 2012 totaled \$409,178 and consisted of cash and investments held for rate stabilization deposits.

**NOTE D - MISO COLLATERAL DEPOSIT**

As of December 31, 2012 GLU delivered \$1,900,799 to the Midwest Independent Transmission System Operator, Inc. (MISO), under a cash collateral agreement. The deposit will be held under the name of MISO for the benefit of GLU. The deposit account shall be drawn upon in case of payment default by GLU. The deposit shall be interest bearing and interest payments will be made to GLU quarterly provided there are no instances of default.

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**NOTE E - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being amortized:				
Work in progress	\$ -	\$ -	\$ -	\$ -
Capital assets, being amortized:				
Equipment	237,935	-	-	237,935
Less accumulated amortization	207,307	30,628	-	237,935
Total capital assets being amortized, net	30,628	(30,628)	-	-
Total capital assets	<u>\$ 30,628</u>	<u>\$ (30,628)</u>	<u>\$ -</u>	-
Less related long-term obligations				-
Net investment in capital assets				<u>\$ -</u>

**NOTE F - LINE OF CREDIT**

GLU has established a \$1,000,000 line of credit with Investors Community Bank. As of December 31, 2012, GLU has not drawn on this line of credit.

**NOTE G - NOTES PAYABLE**

In 2009, GLU issued notes payable to provide cash for operating activities. The notes are due on January 1, 2014 with quarterly interest payments. Interest is calculated quarterly based on the JP Morgan Capital daily fluctuating rate plus an adder equivalent to 75% of the cost of borrowing or obtaining a letter of credit for the principal amount (whichever is less) from a designated local private lender. The outstanding balance as of December 31, 2012 was \$1,900,000, detailed as follows:

<u>Outstanding Notes Payable</u>	
Manitowoc Public Utilities	\$ 720,000
Badger Power Marketing Authority, Inc.	680,000
Wisconsin Rapids Light and Water Commission	500,000
	<u>\$ 1,900,000</u>

**NOTE H - RISK MANAGEMENT**

GLU has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payment of premiums for these policies is recorded as expenses of GLU.

**GREAT LAKES UTILITIES**  
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**NOTE I - CONTINGENT LIABILITIES**

From time to time GLU is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and GLU's Attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on GLU's financial position or results of operations.

**NOTE J - RELATED PARTY TRANSACTIONS**

At the present time GLU has no employees. Therefore in order to facilitate operations, GLU has contracted with one of its members, Manitowoc Public Utilities (MPU), to provide management, secretarial, accounting and technical support services. GLU is charged for these services based upon actual time spent by MPU personnel on GLU operations. GLU is then billed for these services based upon contracted hourly rates. As of December 31, 2012, GLU has recorded a current liability to MPU of \$33,408 for management services rendered.

**NOTE K - PURCHASE POWER CONTRACT**

In October 2011, GLU approved an authorization to enter a purchased power contract with Lakeswind LLC. GLU's commitment will be 71.3% of 50MW for 20 years to begin in 2014.

**NOTE L - SUBSEQUENT EVENTS**

As described in Note B, the FDIC insurance coverage changed on January 1, 2013. At that date, noninterest-bearing transaction (demand deposit) accounts changed from fully insured to a \$250,000 limit for the total of noninterest-bearing and interest-bearing demand deposit accounts. As of January 1, 2013, GLU's uninsured balance was \$7,460,138.

