

MANITOWOC PUBLIC UTILITIES

1303 South 8th Street P.O. Box 1090 Manitowoc, WI 54221-1090 920-683-4600 FAX 920-686-4348 www.mpu.org

February 9, 2020

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 2020 of the activities of Great Lakes Utilities (GLU) - a municipal electric company organized under §66.0825, Wis. Stat.

1. GLU's Mission Statement: *Providing value to our members through offering reliable and cost-effective solutions centered on power supply to enhance the quality of life in each of the communities.*

GLU's Vision Statement: *To strengthen our members' local status by enhanced service offering, cost effective power supply solutions, and increased member participation.*

2. The continued strategic focus of GLU for the next two years will be as follows:
 - a. Planning and Implementing Generating Asset Ownership.
 - b. Succession Planning and Leadership Transition
 - c. Member Retention and Strategic Growth
3. As of December 31, 2020, there are a total of twelve (12) members of GLU. The members are: Bangor, Clintonville, Cornell, Escanaba (Michigan), Kiel, Manitowoc, Marshfield, Medford, Shawano, Stratford, Trempealeau, and Wisconsin Rapids.
4. The Officers of the Great Lakes Utilities are as follows:
 - Chair: Jem Brown, Wisconsin Rapids Water and Lighting Commission
 - Vice Chair: Brian Knapp, Shawano Utilities
 - Secretary: Nicolas Kumm, City of Marshfield
 - Treasurer: Dave DeJongh, City of Cornell
5. Nilaksh Kothari is the Managing Director of Great Lakes Utilities.

6. GLU's power supply rates for the GLU-East group (Wisconsin Rapids, Kiel, Manitowoc, Stratford, and the Badger Power Marketing Authority members Shawano and Clintonville) remain very competitive. Average system rates for 2021 were set by the Project Committee and approved by the GLU Board with a resulting decrease of 3.5% as compared to 2020 budgeted rates.
7. GLU's power supply rates for the GLU West members (Bangor, Cornell, Medford, and Trempealeau) also remain very competitive. Average system rates for 2021 were set by the Project Committee and approved by the GLU Board. Average system rates remain the same in 2021 as compared to budgeted rates for 2020.
8. The operation of the Lakeswind project, of which GLU is the primary off-taker, continues to be stable. Increased energy production, together with lower MISO energy pricing, due to load reductions resulting from COVID-19 impacts, has resulted in the project performing behind budget and producing negative cash flows. The wind project committee continues to monitor project performance and adjusts rates accordingly. For 2021, GLU increased the wind project tariff by \$3.00/MWh in August 2020 and \$1.00/MWh effective January 1, 2021.
9. In 2020, GLU continued working on several key initiatives from its strategic plan. A few key accomplishments:
 - a. The GLU Board has been working on a plan for a natural gas generation plant since 2019 and progress continues on this initiative with a final decision to be made in 2021 based on the construction costs. The facility would be sited in the City of Manitowoc at the MPU Custer Substation adjacent to MPU's combustion turbine;
 - b. The GLU Board has released an RFP for a portfolio of community-sited, behind-the-meter (BTM) solar installations and a 20-25 MW front-of-meter (FTM), utility-scale, MISO Capacity Zone 2 solar project. The BTM solar option would potentially include an installation up to 5MW located in the City of Manitowoc;
 - c. Through an agreement with MPU, the GLU Board has extended the Agreement of Managing Director through December 2021. The agreement includes provision for the orderly transition of responsibility of the managing director services to the MPU General Manager;
 - d. The GLU Board is developing a plan for member retention and strategic growth which includes evaluation of expansion of services and the potential addition of new members.
10. Through its operating services agreement with MPU, GLU continues to perform market participant functions in the Midcontinent Independent System Operator (MISO) on behalf of its GLU East and West power supply members as well as Escanaba and Marshfield.
11. The GLU Board generally meets every month, with most meetings occurring in Wisconsin Rapids or via teleconference.

12. 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.

13. The 2019 Annual Report, approved by the GLU Board at its Annual Meeting in November 2020, is attached. The financial statements of GLU are being audited by CliftonLarsonAllen (CLA) of Green Bay, Wisconsin.

Please advise me if you have any questions on the report or feel free to call me at 686-4377. Again, I want to take this opportunity to thank you for your support of our Utility and GLU.

Best regards,

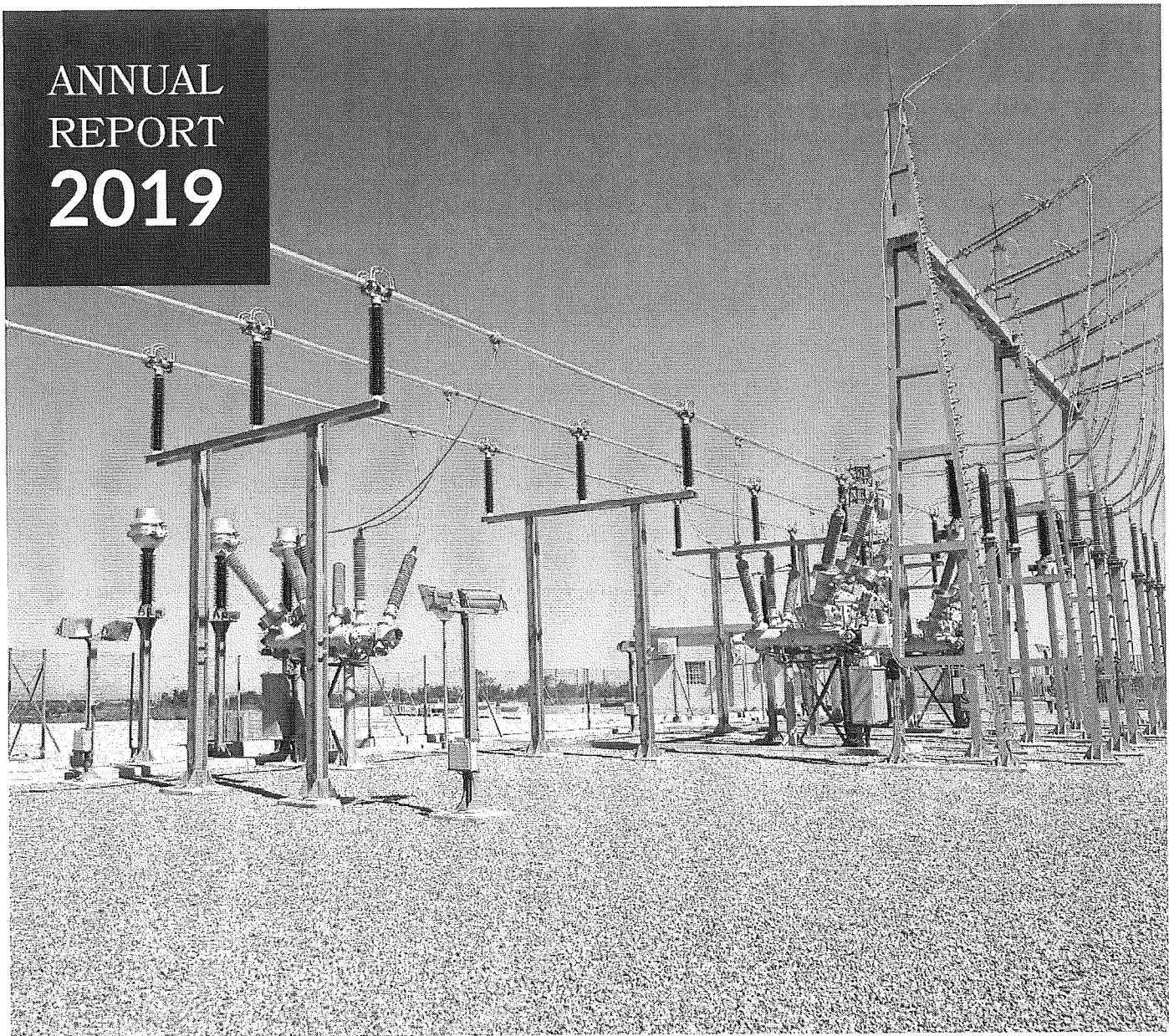


Troy Adams, P. E.
General Manager

Attachment

cc: MPU Commission w/o attachment

ANNUAL
REPORT
2019



Great Lakes
Utilities

GreatLakesUtilities.org

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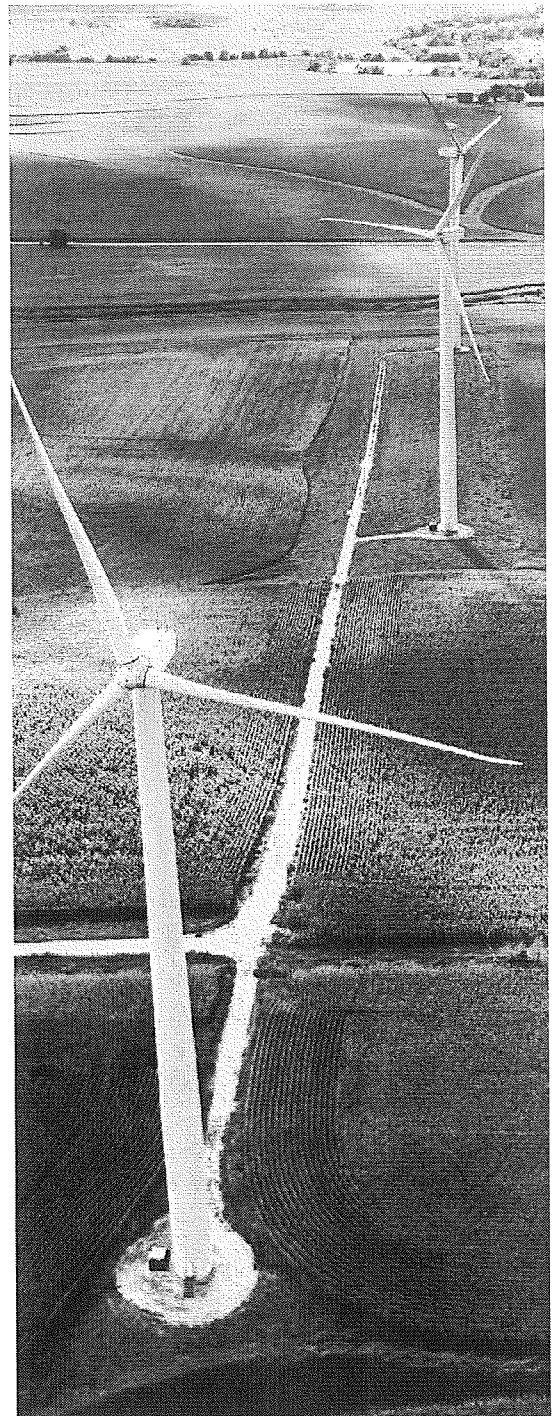
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Great Lakes Utilities is a municipal electric company formed under Wisconsin Statute 66.0825. As such, it is a public body and a subdivision of the State of Wisconsin with a legal nature and authority separate from its municipal members. GLU was formed 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. GLU currently has 12 members: the Wisconsin communities of Bangor, Clintonville, Cornell, Kiel, Manitowoc, Marshfield, Medford, Shawano, Stratford, Trempealeau, Wisconsin Rapids, and Escanaba, MI. These member communities provide electric service to over 70,000 customers in Wisconsin and upper Michigan.

Highlights from 2019

In 2019, GLU purchased an equity interest in Hometown Connections LLC for \$265,000. Hometown Connections is a national service organization originally created to provide value-added services to public power utilities throughout the country. GLU is the sixth member-owner.

In 2019, the Village of Stratford entered into a 25 year power supply contract with GLU for all of its capacity and energy needs.

In September of 2019, the power supply rates for the GLU-East members were reduced by approximately 4.5%. Rates for the GLU-West power supply members were reduced by 7% as of January 1, 2019. In December 2019 GLU-West power supply member rates were reduced an additional 3.5%.

Through its operating services agreement with Manitowoc Public Utilities (MPU), GLU performs market participant functions in the Midcontinent Independent System Operator (MISO) on behalf of its GLU-East and GLU-West power supply members. MPU also provides MISO market function to Marshfield Utilities for their combustion turbine generator.

Also in 2019, the GLU long term power supply plan was updated to focus on maintaining a balanced portfolio of short, medium, and long-term capacity supply agreements. The goal of this focus is to continue to maintain low power supply rates for members and minimize the risk of cost fluctuations.

Commitment to Renewable Energy

The Lakeswind Project is a 50 MW nominal wind energy facility, composed of 32 x 1.5 MW wind turbines, developed by Project Resources Corporation (PRC) on behalf of Lakeswind Power Partners, LLC near the community of Rollag, Minnesota, located approximately 30 miles east of Moorhead, Minnesota. The Project interconnects with and delivers power into the electrical system of the Midcontinent Independent Transmission System Operator, Inc. (MISO) at the nearby 115 kV Tamarac Substation, owned by Great River Energy (GRE).

GLU manages the market operations for the Lakeswind project on behalf of the GLU-East and GLU-West power supply pools as well as additional non-member project participants including 6 municipal utilities in western Wisconsin, Northwestern Wisconsin Electric Company and North Central Power Co. Inc.

For the GLU-West members, the Project is projected to supply all of their renewable needs as long as the current Wisconsin RPS requirements for the future do not change. For the GLU-East members, whose requirements are currently met through a combination of wholesale contracts and MPU generation, the Project supplies the 45,000 MWh of renewable energy needed to meet their requirements as long as the current Wisconsin RPS requirements for the future do not change.

Letter from Leadership

Charles Darwin wrote "In the long history of human kind those who learned to collaborate and improvise most effectively have prevailed." This is true for a municipal joint action agency such as Great Lakes Utilities.

As we look forward to 2020, GLU members will be celebrating the 20th anniversary. In 2000, the vision of ten utility and city leaders was accomplished with the registration of GLU as a municipal electric company under Wisconsin law. The vision was to create a project-based joint action agency in order to provide public power communities an option to choose the services they desired, rather than the "one size fits all model."

The vision proved to be a success. From a cash balance of less than \$100,000 in January 2001 to a total budget of almost \$100 million in 2019, GLU has enjoyed tremendous growth and success over the years. Although some of the founding members are no longer with GLU, others have joined and today GLU is a strong organization with 12 members, all of whom are committed to the original vision. A brief description of each member community is included in this report, along with a discussion of the unique value that GLU provides to each member.

As we look to the future, GLU remains committed to its original vision as a project-based joint action agency, offering a variety of services to its members, including long-term, reliable and highly competitive partial or full requirements power supply arrangements.

*Nilaksh Kothari, P.E.,
Managing Director*

*Jem L. Brown,
Chair*

2020 Planned Activities

In 2019, GLU completed a Strategic Plan for 2020 – 2022 and updated the Mission and Vision of the organization as follows:

Vision: To strengthen our members' local status by enhanced service offering, cost effective power supply solutions, and increased member participation.

Mission: Providing value to our members through offering reliable and cost effective solutions centered on power supply to enhance the quality of life in each of the communities.

GLU VALUES:

Commitment: Everyone is accountable for success.

Member Focus: Provide value to our members and the communities we serve.

Operational Excellence: Meet and exceed Utilities best practice for cost, reliability and service expectations.

Stewardship: Efficiently manage our financial, environmental and regulatory responsibilities.

Innovation: Develop creative solutions that enhance service offerings.

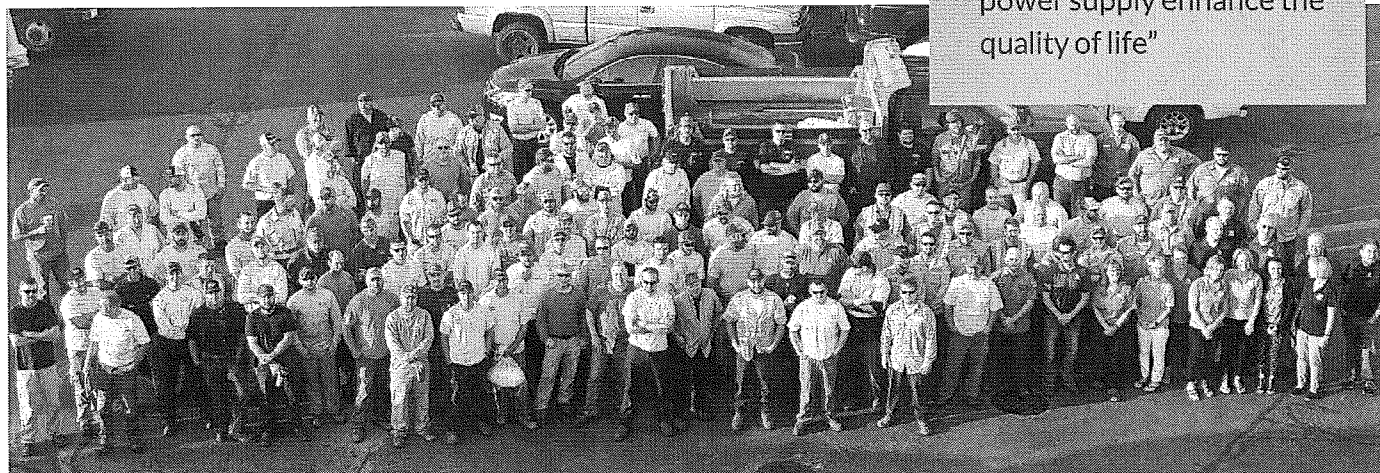
The three focus areas are:

- Planning and implementing generating asset ownership. To continue to ensure low cost and reliable power supply for members, the GLU Board will start the process of investigating generation ownership and/or capacity additions.
- Succession planning and leadership transition. In 2019, Nilaksh Kothari, Managing Director for GLU and CEO & General Manager of Manitowoc Public Utilities, announced his intention to retire. To ensure a smooth leadership transition, the GLU Board will be developing a transition plan to ensure continued service level expectations of members are met and to stay the course for the strategic plan.
- Member retention and strategic growth. To build upon the benefits we see as a wholesale power and services provider, GLU will work to identify and start the process of recruiting new members to Agency.

Stronger Together - Mutual Aid

On Saturday, July 20, 2019, a severe storm hit the community of Wisconsin Rapids with sustained horizontal wind speeds of 91 mph reported. Due to the saturated soil conditions trees were uprooted throughout the entire service territory. After the storm, approximately 95% of their customers were without power. Several GLU member communities, along with many other Wisconsin public power providers, responded to this event providing line crews and equipment to help get residents in Wisconsin Rapids back in power. Crews worked long hours to clear trees from power lines, replace approximately 160 damaged/downed poles and rebuild the distribution system. Within 3 days, crews had restored power to over 80% of residents as they continued to work through the end of the week to restore power to the remaining customers. At GLU, our members are part of a family and when the call to duty comes in, we're there for each other!

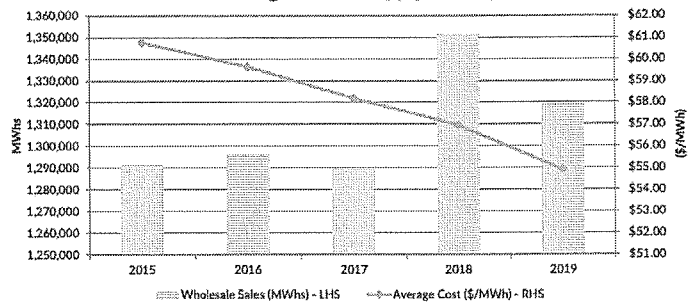
“Reliable and cost effective solutions centered on power supply enhance the quality of life”



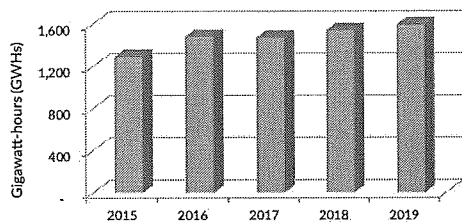
Keeping Costs Low for Our Members

GLU's mission is to provide value to our members through offering reliable and cost effective solutions centered on power supply to enhance the quality of life in each of the communities we serve. GLU takes this mission seriously and have worked hard to keep power supply costs low for our members, knowing for most utilities, power supply cost is their largest expense. Through strategic market purchases and member power agreements, GLU has been able to lower power supply costs significantly over the past several years. The following tables demonstrate the history of power supply costs over the last 5 years.

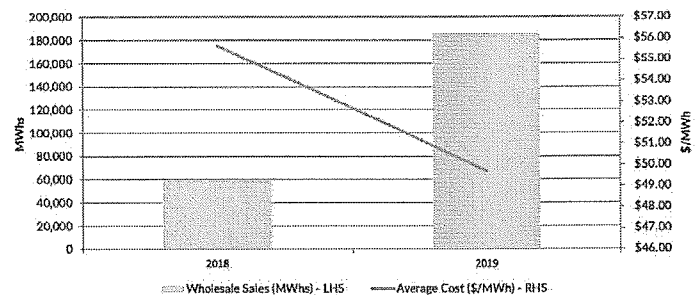
GLU-East Average Power Supply Costs (\$/MWh)



Total Energy Requirements

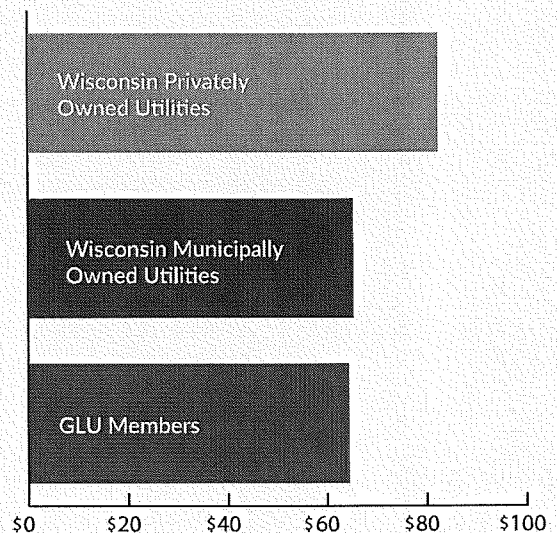


GLU-West Average Power Supply Costs (\$/MWh)



Residential Electric Rate Comparison

FOR THE MONTH OF DECEMBER 2019	Total Bill*
Trempealeau Municipal Electric Utility	\$83.90
WI Privately Owned Utilities (Average)	\$82.41
Escanaba Electric	\$72.73
Bangor Municipal Utility	\$72.42
Clintonville Electric Utility	\$69.14
Shawano Municipal Utilities	\$67.23
WI Municipally Owned Utilities (Average)	\$65.35
GLU Members (Average)	\$64.46
Cornell Municipal Electric Utility	\$63.18
Manitowoc Public Utilities	\$62.74
Wisconsin Rapids Water Works and Lighting Commission	\$61.28
City of Kiel Utilities	\$59.00
Stratford Municipal Electric Utility	\$56.58
Marshfield Utilities	\$55.98
Medford Electric Utility	\$53.60



Averages Based on 600 kWh monthly usage.

Data taken from the Public Service Commission of Wisconsin website - Electric Residential Monthly Bill Comparison where available.

Member Community Focus

Bangor

Bangor Municipal Utilities (BMU) serves approximately 1800 electric customers, 1200 of which are located outside of BMU limits. BMU has approximately 220 square miles of territory located in eastern Lacrosse county and western Monroe county. BMU has been a GLU member since 2013. BMU's affiliation with GLU has helped BMU meet the rising demands of our electric customers, while maintaining affordable rates and outstanding reliability.

Clintonville

Clintonville Utilities (CU) provides electric as well as water and wastewater service to approximately 2,800 customers in the community. Founded 115 years ago, CU's mission is to provide reliable and safe electric, water and wastewater services through courteous and friendly employees. CU is a founding member of GLU since 2000. Membership in GLU has enabled us to keep our power supply costs down, saving our customers money, and it has provided us with valuable source of shared knowledge and expertise on power supply issues.

Cornell

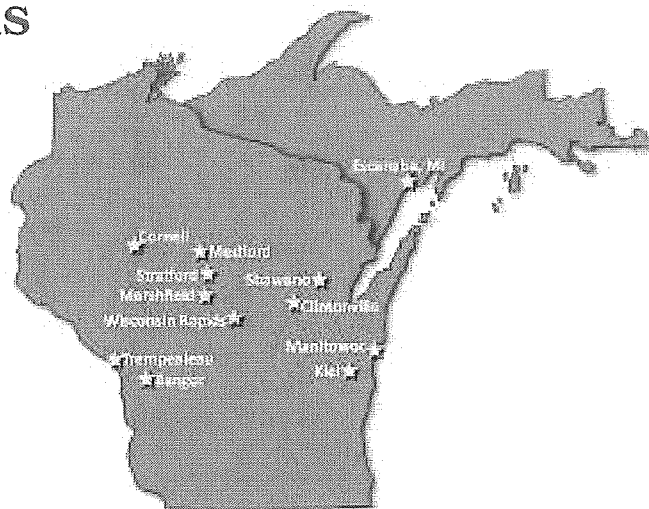
Cornell Municipal Electric & Water Utilities provides electric and water service to over 800 customers in and around our community. PSC rate cases, MISO services, securing power at competitive rates are some of the services that GLU has assisted our utility with. GLU has also been very beneficial in helping us plan our future power supply needs in addition to exploring owned generation. Being a joint action agency we're able to pick and choose the projects that we think our customers will benefit from.

Escanaba, MI

The City of Escanaba Electric Department has been serving customers with electric service to the City of Escanaba as well as part of Ford River Township since 1894. The utility serves 7200 customers with a peak load of 25MW. The City recently expanded their 1.29MW solar facility this year. GLU being a project agency is a huge benefit to Escanaba as we can obtain selected services to fit our needs which are extremely valuable to our overall mission of providing reliable service at competitive rates.

Kiel

The City of Kiel Electric Utility (KEU) was established in 1905 and has grown to serve approximately 2,700 customers. KEU's affiliation with GLU has yielded great dividends by keeping us economically competitive in the region with low electric rates. Further, the collaborative partnerships among GLU's members coupled with GLU's ability to handle regulatory and power purchase agreements has kept our electric utility efficient and our community growing and prospering.



Manitowoc

Manitowoc Public Utilities (MPU) provides electric and water services to approximately 18,000 electric customers and 13,800 water customers. MPU provides dark fiber to businesses, steam and hot water heating service to downtown businesses and IT services to the City. The utility also provides water to the six community members of the Central Brown County Water Authority. MPU has been a member of GLU since 2000 and provides the administrative and operations services for the organization. MPU's alliance with GLU helps MPU meet future power supply requirements at competitive rates and allows flexibility, helping MPU to maintain autonomy in making power supply decisions.

Marshfield

Marshfield Utilities (MU) originated in 1904 and today provides electric, water, and dark fiber service to approximately 13,500 customers in the City of Marshfield and the surrounding townships. In addition, MU owns and operates a combustion turbine plant with the support of GLU. The value in GLU for MU is the ability to collaborate with other public power communities to meet the needs of our customer base while maintaining competitive rates and the reliance on the members to set the direction and focus of GLU.

Medford

Medford Electric Utility (MEU) is a municipally owned utility providing electric service to the City of Medford and portions of five surrounding townships. The utility was formed in 1944 when the City of Medford purchased the distribution system from Lake Superior District Power Company (now Xcel Energy) after a lengthy debate and legal battle that began in 1935. The utility serves over 3,316 customers and operates approximately 50 miles of distribution line, and 2 miles of transmission line. MEU is a founding member of GLU. GLU helps maintain our electric rates as one of the lowest in Wisconsin.

Financial Highlights

Summary Statement Of Net Position

December 31,	2019	2018
Assets		
Current Assets	\$33,150,744	\$31,370,980
Noncurrent Assets	10,348,311	8,573,655
Other Assets	2,820,255	2,557,774
Total Assets	46,319,310	42,502,409
Liabilities		
Current Liabilities	7,357,677	7,651,693
Long-Term Obligations	12,248,311	10,473,654
Total Liabilities	19,605,988	18,125,347
Net Position	\$26,713,322	\$24,377,062

Summary Statement Of

Revenues, Expenses and Changes in Net Position

For the Years Ended	2019	2018
December 31,		
Operating Revenues	\$95,195,394	\$101,416,558
Operating Expenses	93,777,021	96,516,913
Operating Income	1,418,373	4,899,645
Nonoperating Income	917,887	240,000
Change in Net Position	2,336,260	5,139,645
Net Position, Start of Year	24,377,062	19,237,417
Net Position, End of Year	\$26,713,322	\$24,377,062

Shawano

Established in 1900 between Shawano Lake and the historic Wolf River, Shawano Municipal Utilities (SMU) serves 5,700 electric customers. SMU is also the managing partner of Badger Power Marketing Authority (Badger), a joint action agency of the Cities of Shawano and Clintonville, who together are members of Great Lakes Utilities. Our combined membership provides Badger access to low cost power through the joint action expertise and purchasing clout of GLU members. Badger further leverages joint ownership of a sub-transmission interconnection to reduce its power delivery costs and increase reliability. SMU values the flexibility and freedom that GLU membership affords, allowing us more time to spend on day to day management of our utilities and customers as we work together to make smart power supply decisions.

Stratford

Stratford Water and Electric originated in 1925 and currently serves 900 water and electric customers. Stratford's partnership with GLU allows for Stratford to supply power to our customers at competitive rates and to work together with other communities to make power decisions for the future of Stratford.

Trempealeau

Trempealeau Municipal Utilities (TMU) serves 1,386 customers & has been providing electric to the Village and nearby Townships since 1957. TMU also provides residents water and sewer services. TMU prides itself in providing high quality, reliable services to all our customers, our staff providing excellent, courteous customer service with professionalism and a smile. TMU has been a member of GLU since 2011 and GLU has been a great benefit for TMU providing lower cost power supply and helping keep our rates lower for our customers. GLU has also provided us with administrative services and support from many knowledgeable peers in the utility industry.

Wisconsin Rapids

Water Works and Lighting Commission (WW&LC) officially began on January 2, 1915. WW&LC proudly serves approximately 14,753 customers by providing water and electric service to the residents of the City of Wisconsin Rapids and electric service to portions of the surrounding communities of Grand Rapids, Grant, Biron, Seneca, Sigel, Rudolph, and Plover. We maintain approximately 162 miles of water main and approximately 301 miles of distribution lines and 383 miles

of secondary service. GLU is an asset to WW&LC and our customers by helping us to continue providing competitively low rates to all that we serve.

2019 BOARD MEMBERS

BANGOR — Ryan Pelowski

CLINTONVILLE — Brian Ellickson

CORNELL — Dave DeJongh, *Treasurer*

ESCANABA, MI — Mike Furmanski

KIEL — Kris August

MANITOWOC — Nilaksh Kothari, *Managing Director*

MARSHFIELD — Nicolas Kumm

MEDFORD — John Fales, *Secretary*

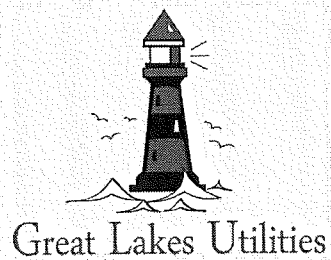
SHAWANO — Brian Knapp, *Vice-Chair*

STRATFORD — Scott Dennee

TREMPEALEAU — Kurt Wood

WISCONSIN RAPIDS — Jem Brown, *Chair*

This report is designed to provide our members and other interested parties with a general overview of GLU's Mission, Vision, financial operations and condition. If you have questions regarding the information provided in this report, contact the Managing Director, Great Lakes Utilities, and P.O. Box 965, Manitowoc, WI 54221-0965.



1323 South 7th Street

PO Box 965 | Manitowoc, WI 54221

Tel (920) 686-4396 | Fax (920) 686-4397

GreatLakesUtilities.org

Great Lakes Utilities
ANNUAL FINANCIAL REPORT

December 31, 2019



CLAcconnect.com

WEALTH ADVISORY
OUTSOURCING
AUDIT, TAX, AND
CONSULTING

Great Lakes Utilities

DECEMBER 31, 2019

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CliftonLarsonAllen LLP
CLAconnect.com

Independent auditors' report

To the Board of Directors
Great Lakes Utilities

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Great Lakes Utilities ("GLU") as of and for the year ended December 31, 2019, and the related notes to the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors consider internal control relevant to GLU'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 GLU'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 GLU as of December 31, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior Year Summarized Financial Information

We have previously audited the 2018 financial statements, and our report dated April 9, 2019, expressed unmodified opinions on those respective financial statements from which the prior year summarized financial information was derived. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report May 21, 2020, on our consideration of GLU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of GLU's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the GLU's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Green Bay, Wisconsin
May 21, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Great Lakes Utilities

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

The management of Great Lakes Utilities ("GLU") offers all parties interested in the financial position of GLU the following overview and analysis of GLU's financial performance during the year ending December 31, 2019.

Please read the narrative in conjunction with GLU's financial statements.

Financial Highlights from 2019

In 2019, GLU purchased an equity interest in Hometown Connections LLC for \$265,000. Hometown Connections is a national non-profit service organization created to provide value-added services to public power utilities throughout the country. GLU is the sixth member-owner.

Also in 2019 GLU completed a Strategic Plan for 2020 – 2022 and updated the Mission and Vision of the organization as follows:

Vision: To strengthen our members' local status by enhanced service offering, cost effective power supply solutions, and increased member participation.

Mission: Providing value to our members through offering reliable and cost effective solutions centered on power supply to enhance the quality of life in each of the communities.

In 2019 GLU initiated the phase 2 of the long term power supply plan with an outside consultant to review options for capacity and energy.

In 2018, the Village of Stratford joined GLU. In 2019, Stratford entered into a 25 year power supply contract with GLU for all of their capacity and energy needs.

In August of 2018, the power supply rates for the GLU-East members were reduced by approximately 4.5%. Rates for the GLU-West power supply members were reduced by 7% as of January 1, 2019.

Through its operating services agreement with Manitowoc Public Utilities (MPU), GLU performs market participant functions in the Midcontinent Independent System Operator (MISO) on behalf of its GLU-East power supply members. In 2017, GLU successfully took over load assets (EPnodes) for the GLU-West members, which enabled GLU to function as their MISO market participant as of January 1, 2018.

\$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 Position as an asset.

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

Great Lakes Utilities

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

Overview of the Financial Statements

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 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. GLU currently has 12 members: the Wisconsin communities of Bangor, Clintonville, Cornell, Kiel, Manitowoc, Marshfield, Medford, Shawano, Stratford, Trempealeau, Wisconsin Rapids; and Escanaba, MI.

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 reflects the income and expenses of GLU for the year.

Financial Analysis

Table 1

Condensed Statement of Net Position

	2019	2018	Dollar Change	Percent Change
Current Assets				
Cash and investments	\$ 26,073,517	\$ 23,712,622	\$ 2,360,895	10.0%
Other	7,077,227	7,658,358	(581,131)	-7.6%
	<u>33,150,744</u>	<u>31,370,980</u>	<u>1,779,764</u>	<u>5.7%</u>
Restricted Assets	10,348,311	8,573,655	1,774,656	20.7%
Other Assets	<u>2,820,255</u>	<u>2,557,774</u>	<u>262,481</u>	<u>10.3%</u>
Total Assets	<u>\$ 46,319,310</u>	<u>\$ 42,502,409</u>	<u>\$ 3,816,901</u>	<u>9.0%</u>
Current Liabilities and Other Accrued Expenses	\$ 7,357,677	\$ 7,651,693	\$ (294,016)	-3.8%
Rate Stabilization Deposits	10,348,311	8,573,654	1,774,657	20.7%
Notes Payable	<u>1,900,000</u>	<u>1,900,000</u>	<u>-</u>	<u>0.0%</u>
Total Liabilities	<u>19,605,988</u>	<u>18,125,347</u>	<u>1,480,641</u>	<u>8.2%</u>
Net Position - Unrestricted	<u>26,713,322</u>	<u>24,377,062</u>	<u>2,336,260</u>	<u>9.6%</u>
Total Net Position	<u>26,713,322</u>	<u>24,377,062</u>	<u>2,336,260</u>	<u>9.6%</u>
Total Liabilities and Net Position	<u>\$ 46,319,310</u>	<u>\$ 42,502,409</u>	<u>\$ 3,816,901</u>	<u>9.0%</u>

Variance Explanations

- Investments of money market and fixed income securities were purchased during 2019 and 2018.

Great Lakes Utilities

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

Table 2

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2019	2018	Dollar Change	Percent Change
Power Supply Billings	\$ 95,090,394	\$ 101,296,701	\$ (6,206,307)	-6.1%
Member Assessments	105,000	119,857	(14,857)	-12.4%
Total Revenues	<u>95,195,394</u>	<u>101,416,558</u>	<u>(6,221,164)</u>	-6.1%
Power Supply Expenses	80,734,276	82,537,187	(1,802,911)	-2.2%
West Power Supply Expenses	10,724,560	12,114,751	(1,390,191)	-11.5%
Wind Expenses	2,196,470	1,755,468	441,002	25.1%
Administrative and General Expenses	<u>121,715</u>	<u>109,507</u>	<u>12,208</u>	11.1%
Total Expenses	<u>93,777,021</u>	<u>96,516,913</u>	<u>(2,739,892)</u>	-2.8%
Operating Income (Loss)	1,418,373	4,899,645	(3,481,272)	-71.1%
Nonoperating Revenues (Expenses)	<u>917,887</u>	<u>240,000</u>	<u>677,887</u>	282.5%
Change in Net Position	2,336,260	5,139,645	(2,803,385)	-54.5%
Net Position - Beginning	<u>24,377,062</u>	<u>19,237,417</u>	<u>5,139,645</u>	26.7%
Net Position - Ending	<u>\$ 26,713,322</u>	<u>\$ 24,377,062</u>	<u>\$ 2,336,260</u>	9.6%

Variance Explanations

- Power supply (East) rates were reduced 4.5% in August 2018. An additional 4% discount was implemented in September of 2019.
- Power supply (West) rates were reduced 7% starting in January 2019.
- Power supply expenses decreased due to the pass through of tax cuts from wholesale power providers from tax legislation, prior year true-ups from these providers and a renegotiated capacity contract.
- Wind expenses increased due to reduced MISO energy pricing for the output.
- Investment income (nonoperating revenues) increased due to increased interest rates on treasury and bond holdings and a reduction in market losses.

Great Lakes Utilities

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

Table 3
Net Plant Activity

	2019	2018	Dollar Change	Percent Change
Equipment	\$ 237,935	\$ 237,935	\$ -	0.0%
Less Accumulated Depreciation	(237,935)	(237,935)	-	0.0%
Net Capital Assets	\$ -	\$ -	\$ -	0.0%

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 55 MWs through 2031.
 - WE Energies – 30 to 80 MWs through 2029.
- GLU has a long-term contract with Manitowoc Public Utilities (MPU) for the purchase of approximately 77 MW of capacity and associated energy.
- GLU is a member of the North American Energy Markets Association (NAEMA). Through this association, GLU makes short to medium term energy and/or capacity purchases with various energy marketers to meet a portion of its requirements.
- GLU makes short-term, non-firm energy purchases and sales when economic to do so via participation in the MISO market.
- GLU receives renewable energy through its contracted power supply purchases and Lakeswind power purchase agreement.

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 Managing Director, Great Lakes Utilities, and P.O. Box 965, Manitowoc, WI 54221-0965.

FINANCIAL STATEMENTS

Great Lakes Utilities

STATEMENT OF NET POSITION
 DECEMBER 31, 2019
 WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash and investments	\$ 26,073,517	\$ 23,712,622
Receivables		
Customer accounts	6,826,547	7,282,678
Prepaid items	<u>250,680</u>	<u>375,680</u>
Total current assets	<u>33,150,744</u>	<u>31,370,980</u>
Noncurrent assets		
Restricted assets		
Cash and investments	<u>10,348,311</u>	<u>8,573,655</u>
Other assets		
MISO collateral deposit	2,555,255	2,557,774
Investment in HCI	<u>265,000</u>	<u>-</u>
Total other assets	<u>2,820,255</u>	<u>2,557,774</u>
Total assets	<u>46,319,310</u>	<u>42,502,409</u>
LIABILITIES		
Current liabilities		
Accounts payable	<u>7,357,677</u>	<u>7,651,693</u>
Long-term obligations, less current portion		
Rate stabilization deposits	10,348,311	8,573,654
Notes payable	<u>1,900,000</u>	<u>1,900,000</u>
Total long-term obligations	<u>12,248,311</u>	<u>10,473,654</u>
Total liabilities	<u>19,605,988</u>	<u>18,125,347</u>
NET POSITION		
Unrestricted	<u>\$ 26,713,322</u>	<u>\$ 24,377,062</u>

The notes to the financial statements are an integral part of this statement.

Great Lakes Utilities

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2019
 WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2018

	2019	2018
OPERATING REVENUES		
Member assessments	\$ 105,000	\$ 119,857
Power supply		
Billings	94,979,339	101,180,678
Supply charges	111,055	116,023
Total operating revenues	<u>95,195,394</u>	<u>101,416,558</u>
OPERATING EXPENSES		
Power supply		
Purchased power	81,791,041	86,143,656
Transmission costs	11,208,426	9,601,582
Outside services		
Legal and intervention	48,334	54,250
Technical services - consultant	222,770	219,506
Technical services - Manitowoc Public Utilities	292,992	298,919
Insurance expense	11,458	11,458
Administrative and general		
Administrative services - Manitowoc Public Utilities	83,825	80,735
Meeting expenses	37,890	28,771
Supplies and other expenses	80,285	78,036
Total operating expenses	<u>93,777,021</u>	<u>96,516,913</u>
Operating income	<u>1,418,373</u>	<u>4,899,645</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	972,923	270,143
Interest expense	(55,036)	(30,143)
Total nonoperating revenues (expenses)	<u>917,887</u>	<u>240,000</u>
Change in net position	2,336,260	5,139,645
Net position - January 1	<u>24,377,062</u>	<u>19,237,417</u>
Net position - December 31	<u>\$ 26,713,322</u>	<u>\$ 24,377,062</u>

The notes to the financial statements are an integral part of this statement.

Great Lakes Utilities

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 95,651,525	\$ 101,773,576
Cash paid to suppliers	(93,946,037)	(97,030,847)
Net cash provided by operating activities	<u>1,705,488</u>	<u>4,742,729</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Rate stabilization deposits received (paid)	1,774,657	1,146,414
Interest allocated to rate stabilization deposit	(413,352)	(135,699)
Interest paid on notes	360,835	(39,671)
Net cash provided by noncapital financing activities	<u>1,722,140</u>	<u>971,044</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment return	972,923	405,842
Cash paid to HC	(265,000)	-
Net cash provided by investing activities	<u>707,923</u>	<u>405,842</u>
Change in cash and cash equivalents	4,135,551	6,119,615
Cash and cash equivalents - January 1	<u>32,286,277</u>	<u>26,166,662</u>
Cash and cash equivalents - December 31	<u>\$ 36,421,828</u>	<u>\$ 32,286,277</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,418,373	4,899,645
Adjustments to reconcile operating income to net cash provided by operating activities		
Change in operating assets and liabilities		
Accounts receivable	456,131	357,018
Prepaid items	125,000	274,340
Accounts payable	(294,016)	(788,274)
Net cash provided by operating activities	<u>\$ 1,705,488</u>	<u>\$ 4,742,729</u>
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents in current assets	\$ 26,073,517	\$ 23,712,622
Cash and cash equivalents in restricted assets	<u>10,348,311</u>	<u>8,573,655</u>
Total cash and cash equivalents	<u>\$ 36,421,828</u>	<u>\$ 32,286,277</u>
Noncash capital and related financing activities		
None		

The notes to the financial statements are an integral part of this statement.

Great Lakes Utilities

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Great Lakes Utilities ("GLU") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. 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 GLU are described below:

A. REPORTING ENTITY ENTERPRISE FUND

The accounts of GLU are accounted for as an enterprise fund as required by GAAP. An enterprise fund is used to account for government operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

GLU's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Unpaid customer accounts receivable are recorded at year end.

GLU distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivery goods in connection with GLU's principal ongoing operations. The principal operating revenues of GLU is charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

C. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION

1. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less from date of acquisition are considered to be cash equivalents.

2. Accounts Receivable

Accounts receivable are recorded at gross amounts 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.

Great Lakes Utilities

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

3. Investment in HCI

GLU holds an equal ownership interest in Hometown Connections, Inc. (HCI), a non-profit entity that was created with six other utilities to provide greater value to public power utilities by offering a variety of consulting and technology services, as well as advanced metering programs. By combining resources through this organization, HCI will help public power utilities of all sizes (including the GLU members) obtain the products and services they need to keep their electric systems robust and to preserve the benefits of community-owned electric utilities.

In accordance GASB Statement No. 72, GLU considers its unrestricted investment in HCI as level 3 inputs and is reported at cost, which is management estimate of fair market value as no quotable market is available.

4. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items and are accounted for on the consumption method.

5. Capital Assets

Capital assets, which include equipment, are reported in the financial statements. Capital assets are defined by GLU as assets with an initial, individual costs 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 acquisition 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 GLU are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment	6

6. Net Position

Net position is displayed in three components:

- ▶ **Net investment in capital assets.** Amount of capital assets, net of accumulated depreciation, and capital related deferred outflows of resources less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and any capital related deferred inflows of resources.
- ▶ **Restricted net position.** Amount of net position that is subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- ▶ **Unrestricted net position.** Net position that is neither classified as restricted nor as net investment in capital assets.

D. 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.

Great Lakes Utilities

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

E. PRIOR YEAR INFORMATION

Comparative amounts for the prior year have been presented in the financial statements to provide an understanding of changes in GLU's financial position and operations. Accordingly, such information should be read in conjunction with GLU's financial statements for the year ended December 31, 2018, from which the comparative information was derived.

F. RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements with no change in previously reported net position, or changes in net position.

NOTE 2: DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

GLU maintains various cash and investment accounts that are restricted by Wisconsin Statutes to the following:

Time deposits; repurchase agreements; securities issued by federal, state and local governmental entities; statutorily authorized commercial paper and corporate securities; and the Wisconsin local government investment pool.

The carrying amount of GLU's cash and investments totaled \$36,421,828 on December 31, 2019 as summarized below:

Deposits with financial institutions	\$ 7,471,904
Investments	28,949,924
	<u>\$ 36,421,828</u>

Reconciliation to the basic financial statements:

Government-wide Statement of Net Position	
Cash and investments	\$ 26,073,517
Restricted cash and investments	10,348,311
	<u>\$ 36,421,828</u>

Fair Value Measurements

GLU 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 observable inputs; Level 3 inputs are significant unobservable inputs. GLU has the following fair value measurements as of December 31, 2019:

	Fair Value Measurements Using:		
	Level 1	Level 2	Level 3
Investments			
U.S. Treasury securities	\$ -	\$ 12,428,657	\$ -
Money market mutual funds	2,037,486	-	-
Corporate bonds and notes	-	13,152,735	-
Federal National Mortgage Association	-	1,331,046	-
	<u>\$ 2,037,486</u>	<u>\$ 26,912,438</u>	<u>\$ -</u>

Great Lakes Utilities

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

Deposits and investments of GLU are subject to various risks. Presented below is a discussion of GLU's deposits and investments and the related risks.

Custodial Credit Risk

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. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Wisconsin statutes require repurchase agreements to be fully collateralized by bonds or securities issued or guaranteed by the federal government or its instrumentalities. GLU does not have an additional custodial credit policy.

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 the combined amount of all time and savings deposits and \$250,000 for interest-bearing and noninterest-bearing 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 for the combined amount of all deposit accounts per official custodian per depository institution. Deposits with credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF) in the amount of \$250,000 per credit union member. 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. This coverage has been considered in determining custodial credit risk.

As of December 31, 2019, \$5,571,862 of GLU's deposits with financial institutions were in excess of federal and state depository insurance limits. All uninsured amounts were collateralized with securities held by the pledging financial institution's agent in GLU's name.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investment in securities to the top two ratings assigned by nationally recognized statistical rating organizations. Presented below is the actual rating as of the year-end for each investment type.

Investment Type	Amount	Exempt from Disclosure	BBB+	AAA	AA	A	Not Rated
U.S. Treasury securities	\$ 12,428,657	\$ 12,428,657	\$ -	\$ -	\$ -	\$ -	\$ -
Money market mutual funds	2,037,486	-	-	-	-	-	2,037,486
Corporate bonds and notes	13,152,735	-	673,130	542,569	1,874,551	10,062,485	-
Federal National Mortgage Association	1,331,046	-	-	1,331,046	-	-	-
Totals	<u>\$ 28,949,924</u>	<u>\$ 12,428,657</u>	<u>\$ 673,130</u>	<u>\$ 1,873,615</u>	<u>\$ 1,874,551</u>	<u>\$ 10,062,485</u>	<u>\$ 2,037,486</u>

Great Lakes Utilities

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

Interest Rate Risk

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

Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. GLU does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of GLU's investments to market interest rate fluctuations is provided by the following table that shows the distribution of GLU's investments by maturity:

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Treasury notes	\$ 12,428,656	\$ 951,075	\$ 2,040,809	\$ 5,410,826	\$ 4,025,946
Money Market Mutual Funds	2,037,486	2,037,486	-	-	-
Corporate Bonds and Notes	13,152,736	2,190,275	2,870,276	6,012,103	2,080,082
Federal National Mortgage Association	1,331,046	-	-	-	1,331,046
Totals	<u>\$ 28,949,924</u>	<u>\$ 5,178,836</u>	<u>\$ 4,911,085</u>	<u>\$ 11,422,929</u>	<u>\$ 7,437,074</u>

B. RESTRICTED CASH AND INVESTMENTS

Restricted assets on December 31, 2019 totaled \$10,348,311 and consisted of cash and investments held for rate stabilization deposits.

C. MIDCONTINENT INDEPENDENT SYSTEM OPERATOR COLLATERAL DEBT

As of December 31, 2019, GLU delivered \$2,555,255 to Midcontinent Independent 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 payable to GLU quarterly, provided there are no instances of default.

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Equipment	\$ 237,935	\$ -	\$ -	\$ 237,935
Less accumulated depreciation	237,935	-	-	237,935
Total capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Great Lakes Utilities

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

E. NOTES PAYABLE

GLU issued notes payable to three members to procure funds to provide necessary collateral as a market participant in accordance with the Transmission and Energy Market Tariff of the Midwest Independent Transmission System Operator (MISO). The notes are due on January 31, 2020 and, in accordance with the terms of the notes, the term of the notes was extended for a year. The notes will automatically renew at the due date for another year unless either party decides to terminate the note on provisions of 120 days prior written notice prior to the end of the term. Interest is paid on a quarterly basis based on the JP Morgan Prime 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, 2019 was \$1,900,000 detailed as follows:

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

NOTE 3: OTHER INFORMATION

A. 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. Payments of premiums for these policies are recorded as expenses of GLU. Settlements have not exceeded insurance coverage and there has been no change in coverage in any of the past three years and no changes to coverage.

B. CONTINGENCIES

From time to time, GLU is party to other various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management 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.

C. 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 the actual time spent by MPU personnel on GLU operations. GLU is then billed for these services based upon contracted hourly rates. For the year ended December 31, 2019, technical and administrative services provided by MPU totaled \$376,817, with a current liability to MPU of \$29,678 for services rendered.

In addition, GLU has purchased power totaling \$21,794,868 from MPU for the year ended December 31, 2019, with a current liability to MPU of \$1,733,749.

D. 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 that began in 2014. In July 2013, GLU approved assignment of Rice Lake's PPA for 9.7% to GLU, making the total commitment 81.0%.

ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR FINANCIAL STATEMENTS



Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*

To the Board of Directors
Great Lakes Utilities

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Great Lakes Utilities ("GLU") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise GLU's financial statements, and have issued our report thereon dated May 21, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered GLU's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GLU's internal control. Accordingly, we do not express an opinion on the effectiveness of GLU's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of GLU's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether GLU's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness GLU's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the GLU's internal control and on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Green Bay, Wisconsin
May 21, 2020

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