



MANITOWOC PUBLIC UTILITIES

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March 15, 2016

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 2015 of the activities of Great Lakes Utilities (GLU) - a municipal electric company organized under §66.0825, Wis. Stat.

1. 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 states: *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.*

2. As of December 31, 2015, there are a total of eleven (11) members of GLU. The members are: Bangor, Clintonville, Cornell, Escanaba (Michigan), Kiel, Manitowoc, Marshfield, Medford, Shawano, Trempealeau, and Wisconsin Rapids.
3. 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: Dennis Dederling, Kiel Utilities
 - Treasurer: Travis Cooke, Trempealeau Utilities
4. Nilaksh Kothari is the Manager of Administrative Services for GLU-related activities.
5. 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 all requirements contracts with or on behalf of those members. GLU anticipates a 0% increase in 2016

power supply rates over 2015. The actual impact to individual power supply members depends on load factor.

6. GLU remains the primary off-taker in the Lakeswind project, which is an approximately 49 MW wind farm located in western Minnesota. The project was initially developed by Lakeswind Power Partners, then purchased by Rockland Partners, LLC, a Texas capital investment firm specializing in renewable energy projects. The project began its commercial operations in March 2014. In the fall of 2015, Rockland's interest in the Project was purchased by Transalta, a Canadian energy corporation. In 2015, GLU evaluated whether or not to make the project available for participation in MISO's dispatchable intermittent resource program, but ultimately determined to maintain the project as an intermittent resource in MISO. Through separate service schedules under its operating service agreement with MPU, GLU continues to handle daily MISO energy market activities and invoicing on behalf of participating GLU members, as well as other off-takers, which include several former GLU members, as well as Northwestern Wisconsin Electric Company and North Central Power Company.
7. In 2015, GLU engaged in a facilitated strategic planning process and adopted a strategic plan that focused on five strategic goals: (i) succession planning; (ii) establishment of a Rate Stabilization Fund policy; (iii) completion of a generation ownership feasibility study; (iv) assessment and delivery of potential new service opportunities to and by members; and (v) brand awareness. Implementation of these goals will be a priority over 2016 and 2017.
8. GLU also provides power supply services under 25-year all requirements contracts to four members comprising the "GLU West" project committee (Bangor, Cornell, Medford and Trempealeau). GLU provides these members with long term power supply planning and has procured energy and capacity resources for them in accordance with their needs.
9. 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 allows MPU to mitigate potential rate increases due to the loss of its largest electric and steam customer, while providing GLU power supply members with a hedge against market risk and load loss.
10. GLU continues exercising market participant responsibilities with the Midcontinent Independent System Operator (MISO) on behalf of its power supply members. MISO is the regional transmission organization that 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 over which power is delivered to GLU member load.
11. GLU also provides MISO 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, meter data management, 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.

12. GLU continues to manage a diverse portfolio of power supply resources, which consists of long-term power supply arrangements with several suppliers, including Wisconsin Public Service Corporation, Alliant Energy, 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 through 2015 to allow its power supply members to benefit from favorable energy market prices.
13. 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.
14. 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. GLU also intervenes in FERC and Public Service Commission of Wisconsin (PSCW) proceedings from time to time to protect member interests. In 2015, GLU actively intervened in the proceedings that led to the approval of the acquisition of Integrys Energy Group by Wisconsin Energy Corporation, as well as in PSCW docket in which Alliant Energy is seeking approval to construct a new 700 MW natural gas combined cycle plant near its Riverside plant site in Janesville, Wisconsin.
15. The GLU Board generally meets every month, with most meetings occurring in Wisconsin Rapids or via teleconference.
16. 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.
17. 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.
18. The 2014 Annual Report, approved by the GLU Board at its Annual Meeting in October 2015, 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 GLU.

Sincerely,

Handwritten signature of Nilaksh Kothari in black ink.

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, 2014**

2014 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. Founding members included: the Wisconsin municipalities of Wisconsin Rapids, Manitowoc, Kiel, Marshfield, and Medford, subsequently joined by Shawano and Clintonville. In 2011, GLU added the Wisconsin municipalities of Cornell, Bangor and Trempealeau, as well as the Michigan city of Escanaba.

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 Project Committee Members, and created the GLU load zone in the MISO energy markets.

In 2013, GLU established the GLU West Power Supply Project Committee for members located in Resource Zone 1 of the Midcontinent Independent System Operator (MISO): Cornell, Bangor, Trempealeau and Medford.

SIGNIFICANT ACCOMPLISHMENTS – 2014

GLU continues the process of long term power supply planning for members the GLU West Power Supply Project Committee and enters into long term (25-year) power supply contracts to serve all four GLU West power supply committee members: Cornell, Bangor, Trempealeau and Medford. The contracts enable GLU to formally administer a GLU West power supply pool and to assume full requirements power supply responsibilities for those communities. GLU procures additional short term capacity and energy products to meet the needs of GLU West members.

Construction on the Lakeswind project is completed and certified in March, 2014, and the new wind facility begins generating energy for project participants. The facility has the capability of producing approximately 50 MW of power from an aggregate total of 32 turbines. GLU finalizes its MISO operational procedures manual and continues refining its market strategy to maximize value for project participants.

GLU expands the range of special services it provides members under its Operating Services agreement with Manitowoc Public Utilities. New services include meter data management services to help GLU West members alleviate PCAC fluctuations.

GLU continues managing a diverse portfolio of short term and long term power supply resources with numerous power suppliers to serve Power Supply Project Committee members. GLU's integrated wholesale electric rates for those members remain among the lowest in the state.

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. GLU also intervenes in federal and state regulatory proceedings to protect its members interests, including the Presque Isle Power Plant cost allocation proceeding and the Wisconsin Energy Corporation/Integrus acquisition proceedings.

GLU enters into a five year agreement to sell excess renewable energy to WE Energies, marking the first time GLU contracts to provide output from its existing portfolio to a non-member utility.

GLU receives official certificate from the federal patent and trademark association formally completing the trademark registration process.

GLU launches a new website: <http://greatlakesutilities.org/>

MEMBER COMMUNITIES

Bangor, Cornell, Clintonville, Escanaba (Michigan), Kiel, Manitowoc, Marshfield, Medford, Shawano, Trempealeau, and Wisconsin Rapids.

The combined 2014 load of the GLU members (not including the withdrawing members) was approximately 366.6 MW and 2,042,555 MWhs. Load served by GLU for its Power Supply Members was approximately 210.2 MW and 1,311,925 MWhs.

2014 BOARD OF DIRECTORS

Steve Baker, Bangor
Clintonville (vacant)
Jem Brown, Wisconsin Rapids (Chair)
Travis Cooke, Trempealeau (Treasurer)
Dennis Dederling, Kiel (Secretary)
Dave Dejongh, Cornell
John Fales, Medford
Mike Furmanski, Escanaba
Brian Knapp, Shawano (Vice Chair)
Nilaksh Kothari, Manitowoc
Bob Trussoni, Marshfield

GREAT LAKES UTILITIES
ANNUAL FINANCIAL STATEMENTS
DECEMBER 31, 2014

GREAT LAKES UTILITIES
December 31, 2014

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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 as of and for the year ended December 31, 2014, 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 the Great Lakes Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Great Lakes Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Great Lakes Utilities as of December 31, 2014, and the changes in financial position and cash flows thereof 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Report on Summarized Financial Information

We have previously audited the Great Lakes Utilities 2013 financial statements, and our report dated March 30, 2014, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, 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 dated April 14, 2015, on our consideration of the Great Lakes Utilities' 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 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 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 Great Lakes Utilities' internal control over financial reporting and compliance.



Certified Public Accountants
Green Bay, Wisconsin
April 14, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Management's Discussion and Analysis
December 31, 2014**

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, 2014. Please read the narrative in conjunction with GLU's financial statements.

Financial Highlights from 2014

In 2014, the four GLU West members (Cornell, Medford, Bangor, and Trempealeau) entered into 25 year power supply contracts with GLU for all of their capacity and energy needs.

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. 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. Funding was received in summer 2013 and all 32 turbines were erected by the end of 2013. The project became operational on March 13, 2014.

\$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.

In 2013, GLU implemented a financial risk management policy to identify, quantify, and manage the risks and support associated with any indebtedness issued by GLU in connection with the performance of its obligations under the long-term power supply contracts and other project agreements.

One member (Spooner) withdrew from GLU in 2014. Five additional members (Barron, Bloomer, Cadott, Rice Lake and Wakefield) withdrew from GLU in 2013.

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 66.08250734. 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 reflects the income and expenses of GLU for the year.

Utility Financial Analysis

Table 1
Condensed Statement of Net Position

	2014	2013	Dollar Change	Percent Change
Current Assets	\$ 8,440,875	\$ 11,184,196	\$ (2,743,321)	-24.5%
Investments	11,091,028	8,003,085	3,087,943	38.6%
Restricted Assets	2,197,734	1,379,293	818,441	59.3%
Other Assets	2,544,820	2,044,820	500,000	24.5%
Total Assets	\$ 24,274,457	\$ 22,611,394	\$ 1,663,063	7.4%
Current Liabilities and Other Accrued Expenses	8,328,195	6,895,227	\$ 1,432,968	20.8%
Member Rate Stabilization Deposits	2,197,734	1,379,293	818,441	59.3%
Notes Payable to Members	1,900,000	1,900,000	-	0.0%
Total Liabilities	12,425,929	10,174,520	2,251,409	22.1%
Net Position - Unrestricted	11,848,528	12,436,874	(588,346)	-4.7%
Total Liabilities and Net Position	\$ 24,274,457	\$ 22,611,394	\$ 1,663,063	7.4%

Variance Explanations

- An additional \$500K was deposited with MISO in 2014 from Power Supply investments. In 2013, a \$1M deposit was made with MISO from funds borrowed from 3 members
- Investments of money market and fixed income securities were purchased during 2013 and 2014.

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

	2014	2013	Dollar Change	Percent Change
Power Supply Billings	\$ 91,476,674	\$ 85,479,059	\$ 5,997,615	7.0%
Member Assessments	135,929	173,507	(37,578)	-21.7%
Total Revenues	91,612,603	85,652,566	5,960,037	7.0%
Power Supply Expenses	86,565,137	80,667,447	5,897,690	7.3%
West Power Supply Expenses	4,495,584	561,061	3,934,523	701.3%
Wind Expenses	1,121,250	13,047	1,108,203	
Administrative and General Expenses	107,693	116,990	(9,297)	-7.9%
Total Expenses	92,289,664	81,358,545	10,931,119	13.4%
Operating Income	(677,061)	4,294,021	(4,971,082)	-115.8%
Nonoperating Revenues (Expenses)	88,713	11,487	77,226	672.3%
Change in Net Position	(588,348)	4,305,508	(4,893,856)	-113.7%
Net Position - Beginning	12,436,874	8,131,366	4,305,508	52.9%
Net Position - Ending	\$ 11,848,526	\$ 12,436,874	\$ (588,348)	-4.7%

Variance Explanations

- Power supply billings increased \$6M due to the startup of the Lakeswind project and 4 members entering into long term power supply contracts with GLU as previously discussed. Power supply expenses increased proportionate to the increase in revenues.

Table 3
Net Plant Activity

	2014	2013	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 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 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 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.

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, and P.O. Box 965, Manitowoc, WI 54221-0965.

FINANCIAL STATEMENTS

GREAT LAKES UTILITIES
Statement of Net Position
December 31, 2014
With Comparative Information as of December 31, 2013

	2014	2013
ASSETS		
Current Assets		
Cash	\$ 719,944	\$ 6,801,033
Accounts receivable	7,687,911	4,383,163
Prepaid items	33,020	-
Investments	11,091,028	8,003,085
Total Current Assets	19,531,903	19,187,281
Noncurrent Assets		
Restricted cash and investments	2,197,734	1,379,293
MISO collateral deposit	2,544,820	2,044,820
Capital Assets		
Equipment	237,935	237,935
Accumulated amortization	(237,935)	(237,935)
Total Noncurrent Assets	4,742,554	3,424,113
Total Assets	24,274,457	22,611,394
LIABILITIES		
Current Liabilities		
Accounts payable	8,328,195	6,895,227
Noncurrent Liabilities		
Rate stabilization deposits	2,197,734	1,379,293
Notes payable	1,900,000	1,900,000
Total Noncurrent Liabilities	4,097,734	3,279,293
Total Liabilities	12,425,929	10,174,520
NET POSITION		
Unrestricted	\$ 11,848,528	\$ 12,436,874

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, 2014
With Comparative Information for the Year Ended December 31, 2013

	2014	2013
Operating Revenues		
Member assessments	\$ 135,929	\$ 173,507
Power supply		
Billings	91,212,489	85,255,612
Supply charges	264,185	223,447
Total Operating Revenues	91,612,603	85,652,566
Operating Expenses		
Power supply		
Purchased power	83,853,981	73,347,441
Transmission costs	7,640,090	7,268,686
Outside services		
Legal and intervention	148,483	129,283
Technical services - consultant	177,616	170,553
Technical services - Manitowoc Public Utilities	293,648	262,745
Insurance expense	11,430	10,390
Administrative and general		
Administrative services	107,536	115,258
Meeting expenses	10,222	14,367
Supplies and other expenses	46,656	39,822
Total Operating Expenses	92,289,662	81,358,545
Operating Income (Loss)	(677,059)	4,294,021
Nonoperating Revenues (Expenses)		
Investment return	103,794	27,506
Interest expense	(15,081)	(16,019)
Total Nonoperating Revenues (Expenses)	88,713	11,487
Change in Net Position	(588,346)	4,305,508
Net Position - January 1	12,436,874	8,131,366
Net Position - December 31	\$ 11,848,528	\$ 12,436,874

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Statement of Cash Flows
For the Year Ended December 31, 2014
With Comparative Information for the Year Ended December 31, 2013

	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	\$ 88,307,855	\$ 87,825,049
Cash paid to suppliers	(90,889,714)	(81,239,358)
Net Cash Provided (Used) by Operating Activities	<u>(2,581,859)</u>	<u>6,585,691</u>
Cash Flows from Noncapital Financing Activities		
Rate stabilization deposits received (paid)	818,441	970,115
Interest paid on notes	(15,081)	(16,019)
MISO collateral deposit	(500,000)	(144,021)
Net Cash Provided by Noncapital Financing Activities	<u>303,360</u>	<u>810,075</u>
Cash Flows from Investing Activities		
Interest received	103,794	27,506
Net Change in Cash and Cash Equivalents	(2,174,705)	7,423,272
Cash and Cash Equivalents - January 1	<u>16,183,411</u>	<u>8,760,139</u>
Cash and Cash Equivalents - December 31	<u>\$ 14,008,706</u>	<u>\$ 16,183,411</u>
Reconciliation to Statement of Net Position		
Cash	\$ 719,944	\$ 6,801,033
Investments	11,091,028	8,003,085
Restricted cash and investments	2,197,734	1,379,293
Total Cash and Cash Equivalents	<u>\$ 14,008,706</u>	<u>\$ 16,183,411</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ (677,059)	\$ 4,294,021
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(3,304,748)	2,172,483
Accounts payable	1,432,968	119,187
Prepaid items	(33,020)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (2,581,859)</u>	<u>\$ 6,585,691</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2014

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.

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 and Investments**

Cash deposits consist of time deposits with a financial institution and are carried at cost. Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For purposes of the statement of cash flows, all cash deposits and highly liquid investments with a maturity of three months or less (including restricted assets) 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 Utility 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.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2014

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

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

<u>Assets</u>	Years
Equipment	6

d. Deferred Outflows/Inflows of Resources

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 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
- 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, 2013, from which the summarized information was derived.

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.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2014

NOTE B - CASH AND INVESTMENTS

Deposits of GLU are subject to various risks. Presented below is a discussion of the specific risks and GLU's policy related to the risk.

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 risk 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. 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, 2014, \$2,268,932 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 the Great Lakes Utilities' 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 investments in securities to the top two ratings assigned by nationally recognized statistical rating organizations. Presented below is the actual rating as of year end for each investment type.

Investment Type	Amount	Exempt From Disclosure	Aaa	Aa	A	Not Rated
US Treasury Notes	\$ 2,027,062	\$ 2,027,062	\$ -	\$ -	\$ -	\$ -
Federal National Mortgage	997,694	-	997,694	-	-	-
Federal Home Loan Mortgage	1,469,723	-	1,469,723	-	-	-
Federal Home Loan Bank	1,025,946	-	1,025,946	-	-	-
Corporate Bonds	5,520,422	-	-	3,517,144	2,003,278	-
Money market funds	50,181	-	-	-	-	50,181
Totals	\$ 11,091,028	\$ 2,027,062	\$ 3,493,363	\$ 3,517,144	\$ 2,003,278	\$ 50,181

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2014

NOTE B - CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total Utilities' investments are as follows:

Issuer	Investment Type	Reported Amount	Percent of Total Investments
Federal Home Loan Bank	Bond	\$ 1,025,946	9%
Federal Home Loan Mortgage	Bond	1,469,723	13%
Federal National Mortgage	Bond	997,694	9%
Australia & New	Bond	1,003,661	9%
Berkshire Hathaway	Bond	973,219	9%
General Electric Co.	Bond	1,003,583	9%
Merck & Co, Inc.	Bond	999,695	9%
Wal-Mart Stores	Bond	999,340	9%

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 the 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
US Treasuries	\$ 2,027,062	\$ -	\$ -	\$ 2,027,062	\$ -
Federal National Mortgage	997,694	-	-	997,694	-
Federal Home Loan Mortgage	1,469,723	-	472,018	997,705	-
Federal Home Loan Bank	1,025,946	-	-	1,025,946	-
Corporate Bonds	5,520,422	-	3,975,838	1,544,584	-
Money market funds	50,181	50,181	-	-	-
Totals	\$ 11,091,028	\$ 50,181	\$ 4,447,856	\$ 6,592,991	\$ -

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

GLU's investments include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

Highly Sensitive Investments	Fair Value at Year End
Federal Home Loan Banks	\$ 1,025,946
Federal Home Loan Mortgage	1,469,723
Federal National Mortgage	997,694
Corporate Bonds	5,520,422
	<u>\$ 9,013,785</u>

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2014

NOTE C - RESTRICTED ASSETS

Restricted assets on December 31, 2014 totaled \$2,197,734 and consisted of cash and investments held for rate stabilization deposits.

NOTE D - MISO COLLATERAL DEPOSIT

As of December 31, 2014 GLU delivered \$2,544,820 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.

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being amortized:				
Equipment	\$ 237,935	\$ -	\$ -	\$ 237,935
Less accumulated amortization	237,935	-	-	237,935
Total capital assets being amortized, net	-	-	-	-
Total capital assets	\$ -	\$ -	\$ -	-
Less related long-term obligations				-
Net investment in capital assets				\$ -

NOTE F - LINE OF CREDIT

GLU has established a \$1,000,000 line of credit with Investors Community Bank. As of December 31, 2014, 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 and in 2014, those notes were extended. The notes are due on January 1, 2017 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, 2014 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>

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2014

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.

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 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, 2014, GLU has recorded a current liability to MPU of \$34,102 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. In July, 2013, GLU approved assignment of Rice Lake's PPA for 9.7% to GLU, making the total commitment 81%.

**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, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Great Lakes Utilities' financial statements, and have issued our report thereon dated April 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Great Lakes Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Great Lakes Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Great Lakes Utilities' 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 Great Lakes Utilities' 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 the Great Lakes Utilities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Certified Public Accountants
Green Bay, Wisconsin
April 14, 2015