

GREAT LAKES UTILITIES
ANNUAL FINANCIAL STATEMENTS
DECEMBER 31, 2011

GREAT LAKES UTILITIES

December 31, 2011

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 6
FINANCIAL STATEMENTS	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10 - 13
ADDITIONAL INDEPENDENT AUDITORS' REPORT FOR FINANCIAL STATEMENTS	
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	14 - 15



INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Great Lakes Utilities

We have audited the accompanying financial statements of Great Lakes Utilities as of and for the year ended December 31, 2011 as listed in the table of contents. These financial statements are the responsibility of Great Lakes Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the Utilities' 2010 financial statements and, in our report dated March 7, 2011 we expressed an unqualified opinion on those financial statements.

We conducted our audits 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Great Lakes Utilities, as of December 31, 2011, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2012, on our consideration of Great Lakes Utilities' internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

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.

Schmidt SC

Certified Public Accountants
Green Bay, Wisconsin
March 1, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis December 31, 2011

The management of Great Lakes Utilities ("GLU") offers all parties interested in the financial position of GLU an objective, easy to read overview and analysis of GLU's financial performance during the year ending December 31, 2011. Please read the narrative in conjunction with GLU's financial statements.

Financial Highlights from 2011

There are nine new member communities that joined Great Lakes Utilities in 2011. They are: Bangor, Barron, Bloomer, Cadott, Cornell, Medford, Spooner and Trempealeau (Wisconsin) and Wakefield and Escanaba (Michigan). GLU's formation contract was formally amended by the Board to permit inclusion of the non-Wisconsin municipalities, consistent with Wis. Stat. 66.0825.

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

In October 2011, GLU agreed to a fixed price 20 year Power Purchase Agreement with Lakeswind, LLC for a 40 MW wind power from a new wind farm proposed in Western Minnesota. The project is expected to become operational in the first quarter of 2013. This PPA locks in highly competitive wind prices for twenty years and will ensure participating GLU project members meet their renewable requirements mandate in a least cost manner. The PPA contains a financing contingency that gives GLU a right to terminate the PPA if the developer does not secure project financing by July 1, 2012. It is GLU's understanding that the Project is currently undertaking efforts to secure such financing.

GLU and Manitowoc Public Utilities (MPU) entered into a 10-year, 77 MW capacity purchase contract. The contract enables GLU to purchase 77 MW of base load capacity from MPU and dispatch generation as needed for the energy while allowing MPU to purchase 77 MW capacity and energy for GLU for the same period.

The \$0.9M in notes payable to members was necessary to provide the Midwest Independent Transmission System Operator (MISO) with the collateral deposit for GLU to be a market participant. The deposit is recorded in the Statement of Net Assets as an asset.

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

Overview of the Financial Statements

Great Lakes Utilities is a municipal electric company formed under Wisconsin Statute 66.0825. 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 the members ability to obtain firm electric power and energy at reasonable costs.

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

Utility Financial Analysis

Table 1
Condensed Statement of Net Assets

	2011	2010	Dollar Change	Percent Change
Current Assets	\$ 8,480,211	\$ 5,667,011	\$ 2,813,200	49.6%
Hydro Project - Receivable - Refund of Advance	1,000,000	-	1,000,000	
Restricted Assets	218,428	299,565	(81,137)	-27.1%
Net Plant	30,628	1,064,618	(1,033,990)	-97.1%
Other Assets	1,320,799	920,799	400,000	43.4%
Total Assets	11,050,066	7,951,993	3,098,073	39.0%
Current Liabilities and Other Accrued Expenses	6,819,306	5,499,442	1,319,864	24.0%
Member Rate Stabilization Deposits	218,428	299,565	(81,137)	-27.1%
Member Advances for Hydro Project	1,000,000	1,000,000	-	100.0%
Notes Payable to Members	900,000	900,000	-	0.0%
Total Liabilities	8,937,734	7,699,007	1,238,727	16.1%
Invested in Capital Assets, Net of Related Debt	(28,856)	(54,350)	25,494	-46.9%
Unrestricted	2,141,188	307,336	1,833,852	596.7%
Total Net Assets	2,112,332	252,986	1,859,346	735.0%
Total Liabilities & Net Assets	\$ 11,050,066	\$ 7,951,993	\$ 3,098,073	39.0%

Variance Explanations

- Current assets show an increase of \$2.8M and current liabilities show an increase of \$1.3M. The hydro project advance was moved from net plant to a receivable. The project did not work out.

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

	2011	2010	Dollar Change	Percent Change
Power Supply Billings	\$ 69,366,695	\$ 59,668,280	\$ 9,698,415	16.3%
Member Assessments	224,143	1,085,000	(860,857)	-79.3%
Total Revenues	69,590,838	60,753,280	8,837,558	14.5%
Power Supply Expenses	66,719,943	59,261,805	7,458,138	12.6%
Hydro Expenses	312,144	565,534	(253,390)	-44.8%
Wind Expenses	155,461	-	155,461	
Administrative and General Expenses	537,213	513,320	23,893	4.7%
Total Expenses	67,724,761	60,340,659	7,384,102	12.2%
Operating Income	1,866,077	412,621	1,453,456	352.2%
Nonoperating Revenues (Expenses)	(6,731)	(5,020)	(1,711)	34.1%
Change in Net Assets	1,859,346	407,601	1,451,745	356.2%
Beginning Net Assets	252,986	(154,615)	407,601	-263.6%
Total Net Assets - Ending	\$ 2,112,332	\$ 252,986	\$ 1,859,346	735.0%

Variance Explanations

- Power supply billings increased \$9.8M and power supply expenses increased \$7.6M
- Member assessments decreased \$0.8M.
- Administrative and general expenses are up \$0.1M.

**Table 3
Net Plant Activity**

	2010	2010	Dollar Change	Percent Change
Equipment	\$ 237,935	\$ 237,935	\$ -	0.0%
Less Accumulated Depreciation	(207,307)	(173,317)	(33,990)	19.6%
Hydro Acquisition	-	1,000,000	(1,000,000)	100.0%
Net Capital Assets	\$ 30,628	\$ 1,064,618	\$ (1,033,990)	-97.1%

Variance Explanations

- See hydro project note in table 1.

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:

- GLU has a long-term contract with Manitowoc Public Utilities for the purchase of 77 MW of capacity and associated energy.
- GLU makes short-term, non-firm purchases and sales when economic to do so via participation in the MISO market.
- 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 receives renewable energy through its contracted power supply purchases and is seeking cost effective resources to meet the mandated state requirements by 2015.

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.

General information relating to Great Lakes Utilities can be found at www.greatlakesutilities.org.

FINANCIAL STATEMENTS

GREAT LAKES UTILITIES

Statement of Net Assets

December 31, 2011

With Comparative Information as of December 31, 2010

	2011	2010
ASSETS		
Current Assets		
Cash	\$ 1,623,807	\$ 947,514
Accounts receivable	7,856,404	4,719,497
Total Current Assets	<u>9,480,211</u>	<u>5,667,011</u>
Noncurrent Assets		
Restricted cash and investments	218,428	299,565
MISO collateral deposit	1,320,799	920,799
Capital Assets		
Work in progress	-	1,000,000
Equipment	237,935	237,935
Accumulated amortization	(207,307)	(173,317)
Total Noncurrent Assets	<u>1,569,855</u>	<u>2,284,982</u>
Total Assets	<u>11,050,066</u>	<u>7,951,993</u>
LIABILITIES		
Current Liabilities		
Accounts payable	<u>6,759,822</u>	<u>5,380,474</u>
Noncurrent Liabilities		
Accounts payable - Manitowoc Public Utilities	59,484	118,968
Rate stabilization deposits	218,428	299,565
Advance from members for hydroelectric plant purchase	1,000,000	1,000,000
Notes payable	900,000	900,000
Total Noncurrent Liabilities	<u>2,177,912</u>	<u>2,318,533</u>
Total Liabilities	<u>8,937,734</u>	<u>7,699,007</u>
NET ASSETS		
Invested in capital assets, net of related debt	(28,856)	(54,350)
Unrestricted	<u>2,141,188</u>	<u>307,336</u>
Total Net Assets	<u>\$ 2,112,332</u>	<u>\$ 252,986</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIESStatement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2011

With Comparative Information for the Year Ended December 31, 2010

	2011	2010
Operating Revenues		
Member assessments	\$ 224,143	\$ 1,085,000
Power supply		
Billings	69,148,969	59,486,779
Supply charges	217,726	181,501
Total Operating Revenues	<u>69,590,838</u>	<u>60,753,280</u>
Operating Expenses		
Power supply		
Purchased power	66,715,010	59,261,805
Phone lines	4,933	4,933
Outside services		
Legal and consulting	177,224	102,435
Management services	48,897	46,068
Technical services	688,635	768,669
Insurance expense	10,390	10,490
Administrative and general		
Secretarial services	2,282	1,576
Accounting services	2,900	2,500
Supplies and other expenses	40,500	32,880
Amortization	33,990	33,990
Total Operating Expenses	<u>67,724,761</u>	<u>60,265,346</u>
Operating Income	<u>1,866,077</u>	<u>487,934</u>
Nonoperating Revenues (Expenses)		
Investment return	1,076	996
Interest expense	(7,807)	(6,016)
Total Nonoperating Revenues (Expenses)	<u>(6,731)</u>	<u>(5,020)</u>
Change in Net Assets	1,859,346	482,914
Prior Period Adjustment	-	(75,313)
Net Assets (Deficit) - January 1	<u>252,986</u>	<u>(154,615)</u>
Net Assets - December 31	<u>\$ 2,112,332</u>	<u>\$ 252,986</u>

The accompanying notes are an integral part of these statements.

