

**GREAT LAKES UTILITIES**  
**ANNUAL FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**GREAT LAKES UTILITIES**

December 31, 2013

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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, 2013, 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 auditor considers 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, 2013, and the results of its operations and cash flows thereof for the year then ended in conformity 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 basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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' 2012 financial statements, and our report dated March 18, 2013, 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, 2012, 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 March 30, 2014, 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  
March 30, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **Management's Discussion and Analysis December 31, 2013**

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, 2013. Please read the narrative in conjunction with GLU's financial statements.

### **Financial Highlights from 2013**

Five members withdrew from GLU in 2013. They are Barron, Bloomer, Cadott, Rice Lake and Wakefield.

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

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

In October 2011, GLU agreed to a fixed price 20 year Power Purchase Agreement with Lakeswind, LLC for wind power from a new 50 MW wind farm proposed in Western Minnesota. The project was expected to become operational in the first quarter of 2013. This PPA locks in highly competitive wind prices for twenty years and will ensure participating GLU project members meet their renewable requirements mandate in a least cost manner. In 2012, GLU completed the acquisition of transmission service for this project and executed an amendment to allow Lakeswind LLC additional time to obtain financing. Funding was received in summer 2013 and all 32 turbines were erected by the end of 2013. The project is currently expected to become operational in the first quarter of 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 Assets as an asset.

In 2013, GLU implemented a financial risk management policy to identify, quantify, and manager 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.

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**

	2013	2012	Dollar Change	Percent Change
Current Assets	\$ 11,184,196	\$ 14,906,607	\$ (3,722,411)	-25.0%
Investments	8,003,085	-	8,003,085	
Restricted Assets	1,379,293	409,178	970,115	237.1%
Other Assets	2,044,820	1,900,799	144,021	7.6%
<b>Total Assets</b>	<b>\$ 22,611,394</b>	<b>\$ 17,216,584</b>	<b>\$ 5,394,810</b>	<b>31.3%</b>
Current Liabilities and Other Accrued Expenses	\$ 6,895,227	\$ 6,776,040	\$ 119,187	1.8%
Member Rate Stabilization Deposits	1,379,293	409,178	970,115	237.1%
Notes Payable to Members	1,900,000	1,900,000	-	0.0%
<b>Total Liabilities</b>	<b>10,174,520</b>	<b>9,085,218</b>	<b>1,089,302</b>	<b>12.0%</b>
<b>Net Position - Unrestricted</b>	<b>12,436,874</b>	<b>8,131,366</b>	<b>4,305,508</b>	<b>52.9%</b>
<b>Total Net Position</b>	<b>12,436,874</b>	<b>8,131,366</b>	<b>4,305,508</b>	<b>52.9%</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 22,611,394</b>	<b>\$ 17,216,584</b>	<b>\$ 5,394,810</b>	<b>31.3%</b>

#### Variance Explanations

- The hydro project was terminated in 2012.
- An additional \$1M deposit was made with MISO in 2013. These funds were borrowed from 3 members.
- Investments of money market and fixed income securities were purchased during 2013.

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

	2013	2012	Dollar Change	Percent Change
Power Supply Billings	\$ 85,479,059	\$ 89,581,998	\$ (4,102,939)	-4.6%
Member Assessments	173,507	152,000	21,507	14.1%
<b>Total Revenues</b>	<b>85,652,566</b>	<b>89,733,998</b>	<b>(4,081,432)</b>	<b>-4.5%</b>
Power Supply Expenses	80,617,848	83,005,009	(2,387,161)	-2.9%
Hydro Expenses	-	10,492	(10,492)	-100.0%
Wind Expenses	13,047	27,694	(14,647)	
Administrative and General Expenses	727,650	684,245	43,405	6.3%
<b>Total Expenses</b>	<b>81,358,545</b>	<b>83,727,440</b>	<b>(2,368,895)</b>	<b>-2.8%</b>
Operating Income	4,294,021	6,006,558	(1,712,537)	-28.5%
Nonoperating Revenues (Expenses)	11,487	12,476	(989)	-7.9%
Change in Net Position	4,305,508	6,019,034	(1,713,526)	-28.5%
Net Position - Beginning	8,131,366	2,112,332	6,019,034	284.9%
Net Position - Ending	\$ 12,436,874	\$ 8,131,366	\$ 4,305,508	52.9%

**Variance Explanations**

- Power supply billings decreased \$4.1M due to decreased volumes. Power supply expenses decreased \$2.4M.

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

	2013	2012	Dollar Change	Percent Change
Equipment	\$ 237,935	\$ 237,935	\$ -	0.0%
Less Accumulated Depreciation	(237,935)	(237,935)	-	0.0%
Net Capital Assets	\$ -	\$ -	\$ -	

**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 70 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.

**GREAT LAKES UTILITIES**  
Statement of Net Position  
December 31, 2013  
With Comparative Information as of December 31, 2012

	2013	2012
<b>ASSETS</b>		
Current Assets		
Cash	\$ 6,801,033	\$ 8,350,961
Accounts receivable	4,383,163	6,555,646
Investments	8,003,085	-
Total Current Assets	<u>19,187,281</u>	<u>14,906,607</u>
Noncurrent Assets		
Restricted cash and investments	1,379,293	409,178
MISO collateral deposit	2,044,820	1,900,799
Capital Assets		
Equipment	237,935	237,935
Accumulated amortization	(237,935)	(237,935)
Total Noncurrent Assets	<u>3,424,113</u>	<u>2,309,977</u>
Total Assets	<u>22,611,394</u>	<u>17,216,584</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	<u>6,895,227</u>	<u>6,776,040</u>
Noncurrent Liabilities		
Rate stabilization deposits	1,379,293	409,178
Notes payable	1,900,000	1,900,000
Total Noncurrent Liabilities	<u>3,279,293</u>	<u>2,309,178</u>
Total Liabilities	<u>10,174,520</u>	<u>9,085,218</u>
<b>NET POSITION</b>		
Unrestricted	<u>12,436,874</u>	<u>8,131,366</u>
Total Net Position	<u>\$ 12,436,874</u>	<u>\$ 8,131,366</u>

The accompanying notes are an integral part of these statements.

**GREAT LAKES UTILITIES**

Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended December 31, 2013  
With Comparative Information for the Year Ended December 31, 2012

	2013	2012
Operating Revenues		
Member assessments	\$ 173,507	\$ 152,000
Power supply		
Billings	85,255,612	89,301,404
Supply charges	223,447	280,594
Total Operating Revenues	<u>85,652,566</u>	<u>89,733,998</u>
Operating Expenses		
Power supply		
Purchased power	80,616,124	83,000,076
Phone lines	1,724	4,933
Outside services		
Legal and consulting	286,292	247,643
Management services	97,262	94,718
Technical services	270,995	283,365
Insurance expense	10,390	10,390
Administrative and general		
Secretarial services	12,680	7,557
Accounting services	3,300	3,200
Supplies and other expenses	59,778	44,930
Amortization	-	30,628
Total Operating Expenses	<u>81,358,545</u>	<u>83,727,440</u>
Operating Income	<u>4,294,021</u>	<u>6,006,558</u>
Nonoperating Revenues (Expenses)		
Investment return	27,506	26,548
Interest expense	(16,019)	(14,072)
Total Nonoperating Revenues (Expenses)	<u>11,487</u>	<u>12,476</u>
Change in Net Position	4,305,508	6,019,034
Net Position - January 1	<u>8,131,366</u>	<u>2,112,332</u>
Net Position - December 31	<u>\$ 12,436,874</u>	<u>\$ 8,131,366</u>

The accompanying notes are an integral part of these statements.

**GREAT LAKES UTILITIES**  
Statement of Cash Flows  
For the Year Ended December 31, 2013  
With Comparative Information for the Year Ended December 31, 2012)

	2013	2012
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 87,825,049	\$ 91,034,756
Cash paid to suppliers	(81,239,358)	(83,680,594)
Net Cash Provided by Operating Activities	<u>6,585,691</u>	<u>7,354,162</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Rate stabilization deposits received (paid)	970,115	190,750
Notes payable proceeds	-	1,000,000
Interest paid on notes	(16,019)	(14,072)
MISO collateral deposit	(144,021)	(580,000)
Net Cash Provided by Noncapital Financing Activities	<u>810,075</u>	<u>596,678</u>
<b>Cash Flows from Capital Financing Activities</b>		
Repayment of amount due to Manitowoc Utilities	-	(59,484)
Advance repaid to members for hydroelectric plant purchase	-	(1,000,000)
Net Cash Used by Capital Financing Activities	<u>-</u>	<u>(1,059,484)</u>
<b>Cash Flows from Investing Activities</b>		
Interest received	<u>27,506</u>	<u>26,548</u>
<b>Net Change in Cash and Cash Equivalents</b>	7,423,272	6,917,904
<b>Cash and Cash Equivalents - January 1</b>	<u>8,760,139</u>	<u>1,842,235</u>
<b>Cash and Cash Equivalents - December 31</b>	<u>\$ 16,183,411</u>	<u>\$ 8,760,139</u>
<b>Reconciliation to Statement of Net Position</b>		
Cash	\$ 6,801,033	\$ 8,350,961
Investments	8,003,085	-
Restricted cash and investments	1,379,293	409,178
Total Cash and Cash Equivalents	<u>\$ 16,183,411</u>	<u>\$ 8,760,139</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income	\$ 4,294,021	\$ 6,006,558
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization	-	30,628
Changes in assets and liabilities:		
Accounts receivable	2,172,483	1,300,758
Accounts payable	119,187	16,218
Net Cash Provided by Operating Activities	<u>\$ 6,585,691</u>	<u>\$ 7,354,162</u>

The accompanying notes are an integral part of these statements.

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**GREAT LAKES UTILITIES**  
Notes to Financial Statements  
December 31, 2013

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

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

1. Reporting Entity

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

2. Basis of Accounting

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

Member assessments are determined and billed annually to cover general and administrative budget items. Special assessments may be determined and billed for special projects. Special assessments of \$25,000 were billed in 2013 to cover the preliminary costs associated with the wind power project feasibility study.

3. Enterprise Fund Accounting Principles

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

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

a. Cash and Investments

Cash and investments are combined on the balance sheet. 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, 2013

**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 reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of "net investment in capital assets". Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- 2) *Restricted net position* - This component of net position consists of constraints placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- 3) *Unrestricted net position* - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets".

5. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

6. Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with GLU's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

**GREAT LAKES UTILITIES**  
Notes to Financial Statements  
December 31, 2013

**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, 2013, \$9,172,527 of GLU's deposits with financial institutions were in excess of federal and state depository insurance limits. \$4,037,918 was collateralized with securities held by the pledging financial institution or its trust department or agent but not in the 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	Aa	A	Not Rated
Federal National Mortgage Assn.	\$ 2,007,371	\$ 2,007,371	\$ -	\$ -
Federal Farm Credit Bank	1,002,007	1,002,007	-	-
Corporate Bonds	4,968,146	2,967,183	2,000,963	-
Money market funds	25,561	-	-	25,561
<b>Totals</b>	<b>\$ 8,003,085</b>	<b>\$ 5,976,561</b>	<b>\$ 2,000,963</b>	<b>\$ 25,561</b>



**GREAT LAKES UTILITIES**  
Notes to Financial Statements  
December 31, 2013

**NOTE B - CASH AND INVESTMENTS (continued)**

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
Federal National Mortgage Assn.	\$ 2,007,371	\$ 2,007,371	\$ -	\$ -	\$ -
Federal Farm Credit Bank	1,002,007	-	1,002,007	-	-
Corporate Bonds	4,968,146	-	-	4,968,146	-
Money market funds	25,561	25,561	-	-	-
<b>Totals</b>	<b>\$ 8,003,085</b>	<b>\$ 2,032,932</b>	<b>\$ 1,002,007</b>	<b>\$ 4,968,146</b>	<b>\$ -</b>

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 National Mortgage Assn.	\$ 2,007,372
Federal Farm Credit Bank	1,002,007
Corporate Bonds	4,968,146
	<u>\$ 7,977,525</u>

**NOTE C - RESTRICTED ASSETS**

Restricted assets on December 31, 2013 totaled \$1,379,293 and consisted of cash and investments held for rate stabilization deposits.

**NOTE D - MISO COLLATERAL DEPOSIT**

As of December 31, 2013 GLU delivered \$2,044,820 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.

**GREAT LAKES UTILITIES**  
Notes to Financial Statements  
December 31, 2013

**NOTE E - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013 was as follows:

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

**NOTE F - LINE OF CREDIT**

GLU has established a \$1,000,000 line of credit with Investors Community Bank. As of December 31, 2013, GLU has not drawn on this line of credit.

**NOTE G - NOTES PAYABLE**

In 2009, GLU issued notes payable to provide cash for operating activities. The notes are due on January 1, 2014 with quarterly interest payments. Interest is calculated quarterly based on the JP Morgan Capital daily fluctuating rate plus an adder equivalent to 75% of the cost of borrowing or obtaining a letter of credit for the principal amount (whichever is less) from a designated local private lender. The outstanding balance as of December 31, 2013 was \$1,900,000, detailed as follows:

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

**NOTE H - RISK MANAGEMENT**

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

**GREAT LAKES UTILITIES**  
Notes to Financial Statements  
December 31, 2013

**NOTE I - CONTINGENT LIABILITIES**

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

**NOTE J - RELATED PARTY TRANSACTIONS**

At the present time GLU has no employees. Therefore in order to facilitate operations, GLU has contracted with one of its members, Manitowoc Public Utilities (MPU), to provide management, secretarial, accounting and technical support services. GLU is charged for these services based upon actual time spent by MPU personnel on GLU operations. GLU is then billed for these services based upon contracted hourly rates. As of December 31, 2013, GLU has recorded a current liability to MPU of \$31,686 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%.

**NOTE L - SUBSEQUENT EVENTS**

As described in Note G, the notes payable were due on January 1, 2014. During the January meeting it was determined to extend those notes through January of 2017.

**ADDITIONAL INDEPENDENT AUDITORS' REPORT  
FOR FINANCIAL STATEMENTS**



**Schenck**  
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CPAs AND SO MUCH MORE.

**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 the Great Lakes Utilities as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Great Lakes Utilities' basic financial statements, and have issued our report thereon dated March 30, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Great Lakes Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of 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 Great Lakes Utilities' financial statements are free of 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 Great Lakes Utilities' internal control and on compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants  
Green Bay, Wisconsin  
March 30, 2014