

GREAT LAKES UTILITIES
ANNUAL FINANCIAL STATEMENTS
DECEMBER 31, 2010

GREAT LAKES UTILITIES

December 31, 2010

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INDEPENDENT AUDITORS' REPORT

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, 2010 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' 2009 financial statements and, in our report dated April 3, 2010 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, 2010, 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 7, 2011, 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.

The Management's Discussion and Analysis is not a required part of the financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and we express no opinion on it.

Certified Public Accountants
Green Bay, Wisconsin
March 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis December 31, 2010

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, 2010. Please read this narrative in conjunction with GLU's financial statements.

Financial Highlights from 2010

GLU and Consolidated Water Power Company (CWPCo), a subsidiary of NewPage Corporation, executed an asset sales agreement for GLU to purchase five CWPCo hydroelectric projects located along the Wisconsin River in DuDay, Stevens Point, Whiting, Biron and Wisconsin Rapids, Wisconsin. The five hydroelectric projects have a combined installed capacity of 35.2 KW and the agreed upon price is approximately \$2,000 per KW of installed capacity. GLU executed long-term unit purchase agreements for entitlement shares of the hydroelectric project with Manitowoc and Marshfield.

In order to make the \$1M down payment on the hydro project, GLU's members provided \$1M in advances which is recorded in the Statement of Net Assets as a liability payable back to the members. Members were also assessed over \$1M for legal and engineering costs associated with this acquisition which will be returned when the project is financed.

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 66.0734. As such, it is a public body and a subdivision of the State of Wisconsin with a legal nature and authority separate from its municipal members. GLU was formed by seven 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.

The Statement of Net Assets (Table 1) and the Statement of Revenues, 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

	2010	2009	Dollar Change	Percent Change
Current Assets	\$ 5,667,011	\$ 4,141,414	\$ 1,525,597	36.8%
Restricted Assets	299,565	737,163	(437,598)	-59.4%
Net Plant	1,064,618	98,608	966,010	979.6%
Other Assets	920,799	920,799	-	0.0%
Total Assets	7,951,993	5,897,984	2,054,009	34.8%
Current Liabilities and Other Accrued Expenses	5,499,442	4,490,910	1,008,532	22.5%
Member Rate Stabilization Deposits	299,565	661,689	(362,124)	-54.7%
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	7,699,007	6,052,599	1,646,408	27.2%
Invested in Capital Assets, Net of Related Debt	(54,350)	(79,843)	25,493	-31.9%
Unrestricted	307,336	(74,772)	382,108	-511.0%
Total Net Assets	252,986	(154,615)	407,601	-263.6%
Total Liabilities & Net Assets	\$ 7,951,993	\$ 5,897,984	\$ 2,054,009	34.8%

Variance Explanations

- Current assets show an increase of \$1.5M and current liabilities show an increase of \$1M.
- The \$1M change in net utility assets is due to the Hydro Project.

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

	2010	2009	Dollar Change	Percent Change
Power Supply Billings	\$ 59,668,280	\$ 51,281,581	\$ 8,386,699	16.4%
Member Assessments	1,085,000	239,700	845,300	352.6%
Total Revenues	60,753,280	51,521,281	9,231,999	17.9%
Power Supply Expenses	59,261,805	52,037,511	7,224,294	13.9%
Hydro Expenses	565,534	12,414	553,120	4455.6%
Administrative and General Expenses	513,320	656,940	(143,620)	-21.9%
Total Expenses	60,340,659	52,706,865	7,633,794	14.5%
Operating Income	412,621	(1,185,584)	1,598,205	-134.8%
Nonoperating Revenues (Expenses)	(5,020)	(37,378)	32,358	-86.6%
Change in Net Assets	407,601	(1,222,962)	1,630,563	-133.3%
Beginning Net Assets	(154,615)	1,068,347	(1,222,962)	-114.5%
Total Net Assets - Ending	\$ 252,986	\$ (154,615)	\$ 407,601	-263.6%

Variance Explanations

- Power supply billings increased \$8.4 and power supply expenses increased \$7.2M.
- Hydro project expenditures increased \$0.5M.
- Member assessments are up due to \$1M in assessments for the Hydro Project in 2010 and \$100,000 in 2009.

Table 3
Net Plant Activity

	2010	2009	Dollar Change	Percent Change
Equipment	\$ 237,935	\$ 237,935	\$ -	0.0%
Less Accumulated Depreciation	(173,317)	(139,327)	(33,990)	24.4%
Hydro Acquisition	1,000,000	-	1,000,000	100.0%
Net Capital Assets	<u>\$ 1,064,618</u>	<u>\$ 98,608</u>	<u>\$ 966,010</u>	979.6%

Variance Explanations

- The \$1M change in Hydro Acquisition was due to the initial payment on the offer to purchase agreement contract.

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 short-term contract with Manitowoc Public Utilities for the purchase of 20MW 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 100MWs through 2031.
 - Alliant Energy – 25MWs through 2017.
 - WE Energies – 30 to 80MWs through 2029.
- 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, P.O. Box 965, Manitowoc, WI 54221-0965.

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

FINANCIAL STATEMENTS

GREAT LAKES UTILITIES
Statement of Net Assets
December 31, 2010
With Comparative Information as of December 31, 2009

	2010	2009
ASSETS		
Current Assets		
Cash	\$ 947,514	\$ 309,552
Accounts receivable	4,719,497	3,831,862
Total Current Assets	<u>5,667,011</u>	<u>4,141,414</u>
Noncurrent Assets		
Restricted cash and investments	299,565	737,163
MISO collateral deposit	920,799	920,799
Capital Assets		
Work in progress	1,000,000	-
Equipment	237,935	237,935
Accumulated amortization	(173,317)	(139,327)
Total Noncurrent Assets	<u>2,284,982</u>	<u>1,756,570</u>
Total Assets	<u>7,951,993</u>	<u>5,897,984</u>
LIABILITIES		
Current Liabilities		
Accounts payable	5,380,474	4,312,459
Noncurrent Liabilities		
Accounts payable - Manitowoc Public Utilities	118,968	178,451
Rate stabilization deposits	299,565	661,689
Advance from members for hydroelectric plant purchase	1,000,000	-
Notes payable	900,000	900,000
Total Noncurrent Liabilities	<u>2,318,533</u>	<u>1,740,140</u>
Total Liabilities	<u>7,699,007</u>	<u>6,052,599</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	(54,350)	(79,843)
Unrestricted (Deficit)	307,336	(74,772)
Total Net Assets (Deficit)	<u>\$ 252,986</u>	<u>\$ (154,615)</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2010
With Comparative Information for the Year Ended December 31, 2009

	2010	2009
Operating Revenues		
Member assessments	\$ 1,085,000	\$ 239,700
Power supply		
Billings	59,486,779	51,745,774
Supply charges	181,501	(464,193)
Total Operating Revenues	<u>60,753,280</u>	<u>51,521,281</u>
Operating Expenses		
Power supply		
Purchased power	59,261,805	52,037,511
Phone lines	4,933	4,933
Outside services		
Legal and consulting	102,435	158,733
Management services	46,068	52,291
Technical services	768,669	352,907
Insurance expense	10,490	11,775
Administrative and general		
Secretarial services	1,576	1,523
Accounting services	2,500	2,300
Supplies and other expenses	32,880	50,902
Amortization	33,990	33,990
Total Operating Expenses	<u>60,265,346</u>	<u>52,706,865</u>
Operating Income (Loss)	<u>487,934</u>	<u>(1,185,584)</u>
Nonoperating Revenues (Expenses)		
Investment return	996	(25,773)
Interest expense	(6,016)	(11,605)
Total Nonoperating Revenues (Expenses)	<u>(5,020)</u>	<u>(37,378)</u>
Change in Net Assets	482,914	(1,222,962)
Prior Period Adjustment	(75,313)	-
Net Assets (Deficit) - January 1	<u>(154,615)</u>	1,068,347
Net Assets (Deficit) - December 31	<u>\$ 252,986</u>	<u>\$ (154,615)</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Statement of Cash Flows
Year Ended December 31, 2010
With Comparative Information for the Year Ended December 31, 2009

	2010	2009
Cash Flows from Operating Activities		
Cash received from customers	\$ 59,865,645	\$ 51,899,928
Cash paid to suppliers	(59,163,341)	(52,806,912)
Net Cash Provided (Used) by Operating Activities	<u>702,304</u>	<u>(906,984)</u>
Cash Flows from Noncapital Financing Activities		
Rate stabilization deposits received (paid)	(437,437)	(507,257)
Repayment of line of credit	-	(1,000,000)
Notes payable proceeds	-	900,000
Interest paid on notes	(6,016)	(11,605)
MISO collateral deposit	-	(20,853)
Net Cash Provided by Noncapital Financing Activities	<u>(443,453)</u>	<u>(639,715)</u>
Cash Flows from Capital Financing Activities		
Acquisition of capital assets	(1,000,000)	-
Repayment of amount due to Manitowoc Utilities	(59,483)	(59,484)
Advance from members for hydroelectric plant purchase	1,000,000	-
Net Cash Provided by Capital Financing Activities	<u>(59,483)</u>	<u>(59,484)</u>
Cash Flows from Investing Activities		
Interest received	996	(25,773)
Net Change in Cash and Cash Equivalents	200,364	(1,631,956)
Cash and Cash Equivalents - January 1	<u>1,046,715</u>	<u>2,678,671</u>
Cash and Cash Equivalents - December 31	<u>\$ 1,247,079</u>	<u>\$ 1,046,715</u>
Reconciliation to Statement of Net Assets		
Cash and investments included in current assets	\$ 947,514	\$ 309,552
Restricted cash and investments	299,565	737,163
Total Cash and Cash Equivalents	<u>\$ 1,247,079</u>	<u>\$ 1,046,715</u>
Cash Flows from Operating Activities		
Operating income (loss)	\$ 487,934	\$ (1,185,584)
Amortization	33,990	33,990
Cash provided (used) by changes in assets and liabilities		
Accounts receivable	(887,635)	378,647
Accounts payable	1,068,015	(134,037)
Net Cash Provided (Used) by Operating Activities	<u>\$ 702,304</u>	<u>\$ (906,984)</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2010

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 66.073. 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 \$1,000,000 were billed in 2010 to cover the preliminary costs associated with the hydroelectric project feasibility study.

3. Enterprise Fund Accounting Principles

The Governmental Accounting Standards Board (GASB) issued Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". This statement provides that proprietary funds may apply all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. GLU have elected to apply only FASB, APB, and ARB materials issued on or before November 30, 1989.

4. Assets, Liabilities and Net Assets

a. Cash

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

b. Accounts Receivable

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

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

c. Capital Assets

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

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

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

<u>Assets</u>	Years
Equipment	6

d. Net Assets

Net assets are classified into the following three components:

- 1) *Invested in capital assets, net of related debt* - This component of net assets 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 "invested in capital assets, net of related debt". Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- 2) *Restricted* - This component of net assets consists of constraints placed on net asset use 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* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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 basic 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 the government's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2010

NOTE B - CASH AND INVESTMENTS

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

Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for time and savings deposits and \$250,000 for demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 per official custodian per depository institution. In addition, GLU's non-interest bearing transaction accounts are fully insured through December 31, 2012. 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, 2010, none of GLU's deposits with financial institutions were in excess of federal and state depository insurance limits and uncollateralized.

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

NOTE C - RESTRICTED ASSETS

Restricted assets on December 31, 2010 totaled \$299,565 and consisted of cash and investments held for rate stabilization deposits.

NOTE D - MISO COLLATERAL DEPOSIT

As of December 31, 2010 GLU delivered \$920,799 to the Midwest Independent Transmission System Operator, Inc. (MISO), under a cash collateral agreement. The deposit will be held under the name of MISO for the benefit of GLU. The deposit account shall be drawn upon in case of payment default by GLU. The deposit shall be interest bearing and interest payments will be made to GLU quarterly provided there are no instances of default.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2010

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being amortized:				
Work in progress	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
Capital assets, being amortized:				
Equipment	237,935	-	-	237,935
Less accumulated amortization	139,327	33,990	-	173,317
Total capital assets being amortized, net	98,608	(33,990)	-	64,618
Total capital assets	<u>\$ 98,608</u>	<u>\$ 966,010</u>	<u>\$ -</u>	1,064,618
Less related long-term obligations				<u>1,118,968</u>
Invested in capital assets net of related long-term obligations				<u>\$ (54,350)</u>

NOTE F - LINE OF CREDIT

GLU has established a line of credit with US Bank. As of December 31, 2010, GLU has drawn \$0 on this line of credit of \$1,000,000.

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, 2010 was \$900,000.

<u>Outstanding Notes Payable</u>	
Manitowoc Public Utilities	\$ 250,000
Badger Power Marketing Authority, Inc.	250,000
City of Kiel	200,000
Wisconsin Rapids Light and Water Commission	200,000
	<u>\$ 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, 2010

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, 2010, GLU has recorded a noncurrent liability to MPU of \$118,968 for capital equipment utilized by GLU and GLU has recorded a current liability to MPU of \$37,909 for management services rendered.

NOTE K - INTENT TO PURCHASE HYDROELECTRIC PROJECTS

Great Lakes Utilities (GLU) and Consolidated Water Power Company (CWPCo), a subsidiary of NewPage Corporation, have signed a letter of intent for GLU to purchase five CWPCo hydroelectric projects located along the Wisconsin River in DuBay, Stevens Point, Whiting, Biron and Wisconsin Rapids, Wisconsin. The five hydroelectric projects have a combined installed capacity of 35.2 kilowatts and the agreed upon price is approximately \$2,000 per kilowatt of installed capacity. GLU made a down payment of \$1,000,000 to NewPage in 2010 toward the possible purchase of the hydroelectric project. If the project is terminated, the \$1,000,000 is expected to be refunded.

NOTE L - PRIOR PERIOD ADJUSTMENT

A prior period adjustment in the amount of \$75,313 was recorded to remove investment earnings on deposits held by GLU on behalf of Manitowoc Public Utilities, the City of Kiel and the City of Wisconsin Rapids. The earnings should have been recorded to a deferred credit account for each utility instead of investment earnings, as the investment earnings are due to each utility.

**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**

To the Board of Directors
Great Lakes Utilities

We have audited the financial statements of Great Lakes Utilities as of and for the year ended December 31, 2010, and have issued our report thereon dated March 7, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Great Lakes Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of Great Lakes Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Great Lakes Utilities' internal control over financial reporting.

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 the financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 basic 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*.

This report is intended solely for the information and use of the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Schenck SC

Certified Public Accountants
Green Bay, Wisconsin
March 7, 2011

