

**GREAT LAKES UTILITIES**  
**ANNUAL FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**GREAT LAKES UTILITIES**  
December 31, 2015

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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 the Great Lakes Utilities ("the Utilities") as of and for the year ended December 31, 2015, and the related notes to the financial statements 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 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 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, 2015, 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 responses 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.

### **Report on Summarized Financial Information**

We have previously audited the Great Lakes Utilities' 2014 financial statements, and our report dated April 14, 2015, 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, 2014, 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, 2016, on our consideration of the 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 Utilities' internal control over financial reporting and compliance.

*Schnitzler*

Certified Public Accountants  
Green Bay, Wisconsin  
March 30, 2016

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

**Management's Discussion and Analysis**  
**December 31, 2015**

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, 2015. Please read the narrative in conjunction with GLU's financial statements.

**Financial Highlights from 2015**

In 2015, 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.

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**

|  | 2015                 | 2014                 | Dollar<br>Change    | Percent<br>Change |
|--|----------------------|----------------------|---------------------|-------------------|
| Current Assets                                 | \$ 10,375,648        | \$ 8,440,875         | \$ 1,934,773        | 22.9%             |
| Investments                                    | 13,384,222           | 11,091,028           | 2,293,194           | 20.7%             |
| Restricted Assets                              | 1,480,818            | 2,197,734            | (716,916)           | -32.6%            |
| Other Assets                                   | 2,544,820            | 2,544,820            | -                   | 0.0%              |
| <b>Total Assets</b>                            | <b>\$ 27,785,508</b> | <b>\$ 24,274,457</b> | <b>\$ 3,511,051</b> | <b>14.5%</b>      |
| Current Liabilities and Other Accrued Expenses | \$ 7,880,506         | \$ 8,328,195         | \$ (447,689)        | -5.4%             |
| Member Rate Stabilization Deposits             | 1,480,818            | 2,197,734            | (716,916)           | -32.6%            |
| Notes Payable to Members                       | 1,900,000            | 1,900,000            | -                   | 0.0%              |
| <b>Total Liabilities</b>                       | <b>11,261,324</b>    | <b>12,425,929</b>    | <b>(1,164,605)</b>  | <b>-9.4%</b>      |
| <b>Net Position - Unrestricted</b>             | <b>16,524,184</b>    | <b>11,848,528</b>    | <b>4,675,656</b>    | <b>39.5%</b>      |
| <b>Total Liabilities and Net Position</b>      | <b>\$ 27,785,508</b> | <b>\$ 24,274,457</b> | <b>\$ 3,511,051</b> | <b>14.5%</b>      |

### Variance Explanations

- An additional \$500K was deposited with MISO in 2014 from Power Supply investments.
- Investments of money market and fixed income securities were purchased during 2014 and 2015.

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

|                                     | 2015               | 2014              | Dollar<br>Change | Percent<br>Change |
|-------------------------------------|--------------------|-------------------|------------------|-------------------|
| Power Supply Billings               | \$ 101,157,251     | \$ 91,476,674     | \$ 9,680,577     | 10.6%             |
| Member Assessments                  | 115,471            | 135,929           | (20,458)         | -15.1%            |
| <b>Total Revenues</b>               | <b>101,272,722</b> | <b>91,612,603</b> | <b>9,660,119</b> | <b>10.5%</b>      |
| Power Supply Expenses               | 82,463,386         | 86,565,137        | (4,101,751)      | -4.7%             |
| West Power Supply Expenses          | 11,531,200         | 4,495,584         | 7,035,616        | 156.5%            |
| Wind Expenses                       | 2,539,276          | 1,121,250         | 1,418,026        |                   |
| Administrative and General Expenses | 101,690            | 107,691           | (6,001)          | -5.6%             |
| <b>Total Expenses</b>               | <b>96,635,552</b>  | <b>92,289,662</b> | <b>4,345,890</b> | <b>4.7%</b>       |
| Operating Income (Loss)             | 4,637,170          | (677,059)         | 5,314,229        | -784.9%           |
| Nonoperating Revenues (Expenses)    | 38,486             | 88,713            | (50,227)         | -56.6%            |
| Change in Net Position              | 4,675,656          | (588,346)         | 5,264,002        | -894.7%           |
| Net Position - Beginning            | 11,848,528         | 12,436,874        | (588,346)        | -4.7%             |
| Net Position - Ending               | \$ 16,524,184      | \$ 11,848,528     | \$ 4,675,656     | 39.5%             |

**Variance Explanations**

- Power supply billings increased \$7M due to a full year of billings to the 4 members who entered into long term power supply contracts with GLU during 2014. The additional increase in revenues is due to an increase in rates for on-peak and off-peak energy effective January 1, 2015 and a full year of billings for the wind farm. Power supply expenses overall increased \$4.4M.

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

|                               | 2015       | 2014       | Dollar<br>Change | Percent<br>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, 2015  
With Comparative Information as of December 31, 2014

|                                 | 2015                 | 2014                 |
|---------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                   |                      |                      |
| Current Assets                  |                      |                      |
| Cash                            | \$ 2,826,505         | \$ 719,944           |
| Accounts receivable             | 7,479,706            | 7,687,911            |
| Prepaid items                   | 69,437               | 33,020               |
| Investments                     | 13,384,222           | 11,091,028           |
| Total Current Assets            | <u>23,759,870</u>    | <u>19,531,903</u>    |
| Noncurrent Assets               |                      |                      |
| Restricted cash and investments | 1,480,818            | 2,197,734            |
| MISO collateral deposit         | 2,544,820            | 2,544,820            |
| Capital Assets                  |                      |                      |
| Equipment                       | 237,935              | 237,935              |
| Accumulated amortization        | (237,935)            | (237,935)            |
| Total Noncurrent Assets         | <u>4,025,638</u>     | <u>4,742,554</u>     |
| <b>Total Assets</b>             | <u>27,785,508</u>    | <u>24,274,457</u>    |
| <b>LIABILITIES</b>              |                      |                      |
| Current Liabilities             |                      |                      |
| Accounts payable                | <u>7,880,506</u>     | <u>8,328,195</u>     |
| Noncurrent Liabilities          |                      |                      |
| Rate stabilization deposits     | 1,480,818            | 2,197,734            |
| Notes payable                   | 1,900,000            | 1,900,000            |
| Total Noncurrent Liabilities    | <u>3,380,818</u>     | <u>4,097,734</u>     |
| <b>Total Liabilities</b>        | <u>11,261,324</u>    | <u>12,425,929</u>    |
| <b>NET POSITION</b>             |                      |                      |
| Unrestricted                    | <u>\$ 16,524,184</u> | <u>\$ 11,848,528</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, 2015  
With Comparative Information for the Year Ended December 31, 2014

|   | 2015                 | 2014                 |
|---|----------------------|----------------------|
| Operating Revenues                              |                      |                      |
| Member assessments                              | \$ 115,471           | \$ 135,929           |
| Power supply                                    |                      |                      |
| Billings  | 101,010,703          | 91,212,489           |
| Supply charges                                  | 146,548              | 264,185              |
| Total Operating Revenues                        | <u>101,272,722</u>   | <u>91,612,603</u>    |
| Operating Expenses                              |                      |                      |
| Power supply                                    |                      |                      |
| Purchased power                                 | 87,779,643           | 83,853,981           |
| Transmission costs                              | 8,075,684            | 7,640,090            |
| Outside services                                |                      |                      |
| Legal and intervention                          | 147,975              | 148,483              |
| Technical services - consultant                 | 205,087              | 177,616              |
| Technical services - Manitowoc Public Utilities | 287,388              | 293,648              |
| Insurance expense                               | 12,000               | 11,430               |
| Administrative and general                      |                      |                      |
| Administrative services                         | 77,434               | 107,536              |
| Meeting expenses                                | 24,830               | 10,222               |
| Supplies and other expenses                     | 25,511               | 46,656               |
| Total Operating Expenses                        | <u>96,635,552</u>    | <u>92,289,662</u>    |
| Operating Income (Loss)                         | <u>4,637,170</u>     | <u>(677,059)</u>     |
| Nonoperating Revenues (Expenses)                |                      |                      |
| Investment return                               | 54,161               | 103,794              |
| Interest expense                                | (15,675)             | (15,081)             |
| Total Nonoperating Revenues (Expenses)          | <u>38,486</u>        | <u>88,713</u>        |
| Change in Net Position                          | 4,675,656            | (588,346)            |
| Net Position - January 1                        | <u>11,848,528</u>    | <u>12,436,874</u>    |
| Net Position - December 31                      | <u>\$ 16,524,184</u> | <u>\$ 11,848,528</u> |

The accompanying notes are an integral part of these statements.

**GREAT LAKES UTILITIES**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2015**  
**With Comparative Information for the Year Ended December 31, 2014**

|   | 2015                 | 2014                  |
|---|----------------------|-----------------------|
| <b>Cash Flows from Operating Activities</b>   |                      |                       |
| Cash received from customers  | \$ 101,480,927       | \$ 88,307,855         |
| Cash paid to suppliers  | (97,119,658)         | (90,889,714)          |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <u>4,361,269</u>     | <u>(2,581,859)</u>    |
| <b>Cash Flows from Noncapital Financing Activities</b>  |                      |                       |
| Rate stabilization deposits received (paid)   | (716,716)            | 818,441               |
| Interest paid on notes  | (15,675)             | (15,081)              |
| MISO collateral deposit   | -                    | (500,000)             |
| <b>Net Cash Provided (Used) by Noncapital Financing Activities</b>                                    | <u>(732,391)</u>     | <u>303,360</u>        |
| <b>Cash Flows from Investing Activities</b>   |                      |                       |
| Interest received   | 54,161               | 103,794               |
| <b>Net Change in Cash and Cash Equivalents</b>  | 3,683,039            | (2,174,705)           |
| <b>Cash and Cash Equivalents - January 1</b>  | <u>14,008,706</u>    | <u>16,183,411</u>     |
| <b>Cash and Cash Equivalents - December 31</b>  | <u>\$ 17,691,745</u> | <u>\$ 14,008,706</u>  |
| <b>Reconciliation to Statement of Net Position</b>  |                      |                       |
| Cash  | \$ 2,826,505         | \$ 719,944            |
| Investments   | 13,384,222           | 11,091,028            |
| Restricted cash and investments   | 1,480,818            | 2,197,734             |
| <b>Total Cash and Cash Equivalents</b>  | <u>\$ 17,691,545</u> | <u>\$ 14,008,706</u>  |
| <b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b> |                      |                       |
| Operating income (loss)   | \$ 4,637,170         | \$ (677,059)          |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: |                      |                       |
| Changes in assets and liabilities:  |                      |                       |
| Accounts receivable   | 208,205              | (3,304,748)           |
| Prepaid items   | (36,417)             | (33,020)              |
| Accounts payable  | (447,689)            | 1,432,968             |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <u>\$ 4,361,269</u>  | <u>\$ (2,581,859)</u> |

The accompanying notes are an integral part of these statements.

**GREAT LAKES UTILITIES**  
Notes to Financial Statements  
December 31, 2015

**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 GLU 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, 2015

**NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)**

Capital assets of GLU 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) 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, 2014, 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, 2015

**NOTE B - CASH AND INVESTMENTS**

1. Cash and Investments

Invested cash consists of deposits and investments which are restricted by the Wisconsin Statutes to the following:

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

The carrying amount of GLU's cash and investments totaled \$17,691,545 on December 31, 2015 as summarized below:

|                                      |                      |
|--------------------------------------|----------------------|
| Deposits with financial institutions | \$ 4,307,323         |
| Investments                          | <u>13,384,222</u>    |
|                                      | <u>\$ 17,691,545</u> |
|                                      |                      |
| Statement of Net Position            |                      |
| Current assets                       | \$ 2,826,505         |
| Restricted cash and investments      | 1,480,818            |
| Investments                          | <u>13,384,222</u>    |
|                                      | <u>\$ 17,691,545</u> |

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, 2015, \$3,416,348 of GLU's deposits with financial institutions were in excess of federal and state depository insurance limits. All uninsured amounts were collateralized with securities held by the pledging financial institution's agent in GLU's name.

**GREAT LAKES UTILITIES**  
Notes to Financial Statements  
December 31, 2015

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

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 yearend for each investment type.

| Investment Type            | Amount               | Exempt From Disclosure | Aaa                 | Aa                  | A                   | Not Rated           |
|----------------------------|----------------------|------------------------|---------------------|---------------------|---------------------|---------------------|
| Money Market Funds         | \$ 3,016,966         | \$ -                   | \$ -                | \$ -                | \$ -                | \$ 3,016,966        |
| US Treasury Notes          | 3,076,954            | 3,076,954              | -                   | -                   | -                   | -                   |
| Corporate Bonds            | 3,782,690            | -                      | 1,000,010           | 1,510,862           | 1,271,818           | -                   |
| Federal Home Loan Mortgage | 1,481,055            | -                      | 1,481,055           | -                   | -                   | -                   |
| Federal Home Loan Bank     | 1,025,267            | -                      | 1,025,267           | -                   | -                   | -                   |
| International Bonds        | 1,001,290            | -                      | -                   | 1,001,290           | -                   | -                   |
| <b>Totals</b>              | <b>\$ 13,384,222</b> | <b>\$ 3,076,954</b>    | <b>\$ 3,506,332</b> | <b>\$ 2,512,152</b> | <b>\$ 1,271,818</b> | <b>\$ 3,016,966</b> |

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            | \$ 1,025,267    | 7%                           |
| Federal Home Loan Mortgage | Bond            | 1,481,055       | 11%                          |
| Australia & New Zealand    | Bond            | 1,001,290       | 7%                           |
| Berkshire Hathaway         | Bond            | 970,543         | 7%                           |
| General Electric Co.       | Bond            | 1,000,010       | 7%                           |
| Merck & Co, Inc.           | Bond            | 1,000,100       | 7%                           |

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.

**GREAT LAKES UTILITIES**  
Notes to Financial Statements  
December 31, 2015

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

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 |
| Money Market Funds         | \$ 3,016,966         | \$ 3,016,966                   | \$ -                | \$ -                | \$ -                |
| US Treasury Notes          | 3,076,954            | 989,880                        | 638,883             | 725,537             | 722,655             |
| Corporate Bonds            | 3,782,690            | 2,970,653                      | 540,319             | -                   | 271,718             |
| Federal Home Loan Mortgage | 1,481,055            | 470,348                        | -                   | 1,010,707           | -                   |
| Federal Home Loan Bank     | 1,025,267            | -                              | 1,025,267           | -                   | -                   |
| International Bonds        | 1,001,290            | -                              | 1,001,290           | -                   | -                   |
| <b>Totals</b>              | <b>\$ 13,384,222</b> | <b>\$ 7,447,847</b>            | <b>\$ 3,205,758</b> | <b>\$ 1,736,244</b> | <b>\$ 994,374</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 Home Loan Banks      | \$ 1,025,267           |
| Federal Home Loan Mortgage   | 1,481,055              |
| Corporate Bonds              | 3,782,690              |
| International Bonds          | 1,001,290              |
|                              | <u>\$ 7,290,301</u>    |

**NOTE C - RESTRICTED ASSETS**

Restricted assets on December 31, 2015 totaled \$1,480,818 and consisted of cash and investments held for rate stabilization deposits.

**NOTE D - MISO COLLATERAL DEPOSIT**

As of December 31, 2015 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.

**GREAT LAKES UTILITIES**  
Notes to Financial Statements  
December 31, 2015

**NOTE E - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015 was as follows:

|   | Beginning<br>Balance | Increases | Decreases | Ending<br>Balance |
|---|----------------------|-----------|-----------|-------------------|
| Capital assets, being amortized:          |                      |           |           |                   |
| Equipment                                 | \$ 237,935           | \$ -      | \$ -      | \$ 237,935        |
| Less accumulated amortization             | 237,935              | -         | -         | 237,935           |
| Total capital assets being amortized, net | -                    | -         | -         | -                 |
| <br>Total capital assets                  | <br>\$ -             | <br>\$ -  | <br>\$ -  | <br>-             |

**NOTE F - LINE OF CREDIT**

GLU has established a \$1,000,000 line of credit with Investors Community Bank. As of December 31, 2015, 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, 2015 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.

**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.

**GREAT LAKES UTILITIES**  
Notes to Financial Statements  
December 31, 2015

**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, 2015, GLU has recorded a current liability to MPU of \$29,030 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 that began in 2014. In July, 2013, GLU approved assignment of Rice Lake's PPA for 9.7% to GLU, making the total commitment 81%.

**NOTE L – UPCOMING PRONOUNCEMENTS**

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 requires measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also requires disclosures about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. GLU is currently evaluating the impact this standard will have on the financial statements when adopted.

**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, 2015, and the related notes to the financial statements, which collectively comprise Great Lakes Utilities' financial statements, and have issued our report thereon dated March 30, 2016.

**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 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 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, 2016