

**ANNUAL REPORT
OF
GREAT LAKES UTILITIES**

**FOR THE YEAR ENDING
DECEMBER 31, 2017**

2017 ANNUAL REPORT

HISTORY AND MISSION OF GREAT LAKES UTILITIES

Great Lakes Utilities (GLU) is a municipal electric company formed under Section 66.0825, Wis. Stats. As such, it is a public body and a political subdivision of the State of Wisconsin, with separate legal status from that of its members. GLU was formed in 2000 in order to become a vehicle for obtaining low cost and reliable electric power for its members.

GLU currently operates two power supply pools: GLU East (serving Manitowoc, Kiel, Wisconsin Rapids, and Power Marketing Authority, which is comprised of the cities of Shawano and Clintonville); and GLU West (serving Cornell, Bangor, Trempealeau and Medford). Power supply pool members are served under long term requirements contracts using a portfolio of power supply resources, which includes short and long term wholesale power contracts, as well as member-owned generation.

GLU also provides a range of utility services to all of its members, including power supply planning and forecasting, market participation and scheduling, retail rate case support, and others.

SIGNIFICANT ACCOMPLISHMENTS – 2017

GLU maintains competitive wholesale rates for budget year 2018. For GLU-West, 2018 budgeted average system rates represent a slight reduction from budgeted 2017 wholesale rates. For GLU-East, 2018 budgeted average system rates remain the same as 2017 wholesale rates. Overall, GLU members maintain among the lowest retail rates in the state due in large measure to GLU's low cost wholesale power supply tariffs.

GLU completes the transfer of GLU load assets associated with the GLU West power supply pool allowing GLU to take over power supply operations for GLU West members in the MISO power markets.

GLU approves rate stabilization and operating reserves policy; evaluates member services priorities and updates its ethics policy.

GLU engages Price Consulting, Inc. to evaluate the costs and benefits of its steam generation capacity and energy sale agreement with Manitowoc Public Utilities and approves a five year extension with a reduced capacity rate that yields substantial savings on annual billings from MPU.

GLU approves a short-term capacity purchase transaction with Marshfield Utilities under the GLU/Marshfield master power purchase and sale agreement.

GLU begins discussions with Village of Stratford on GLU membership.

GLU conducts RFP for long term generation resource study and selects Leidos to review GLU's long term power supply planning methodology and evaluate low cost generation resource alternatives.

GLU continues to participate actively in a coalition of municipal power agencies in federal energy regulatory commission ("FERC") proceedings related to the operation and administration of the MISO energy markets.

GLU continues monitoring state regulatory activities and assists members with compliance obligations stemming from the distribution of transmission-related refunds from MISO.

MEMBER COMMUNITIES

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

The combined 2017 load of GLU members was approximately 377 MW and 1,991,674 MWs.

2017 BOARD OF DIRECTORS

Steve Baker, Bangor
Brian Ellickson, Clintonville
Jem Brown, Wisconsin Rapids (Chair)
Kurt Wood, Trempealeau
Dennis Dederling, Kiel
Dave DeJongh, Cornell (Treasurer)
John Fales, Medford (Secretary)
Mike Furmanski, Escanaba
Brian Knapp, Shawano (Vice Chair)
Nilaksh Kothari, Manitowoc (Managing Director)
Bob Trussoni, Marshfield

Great Lakes Utilities
ANNUAL FINANCIAL REPORT

December 31, 2017

Great Lakes Utilities

DECEMBER 31, 2017

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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 ("GLU") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise GLU's financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to GLU's 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 GLU's 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 GLU as of December 31, 2017, 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 GLU's 2016 financial statements, and our report dated April 12, 2017, 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, 2016, 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 May 9, 2018, on our consideration of GLU's 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 GLU's internal control over financial reporting and compliance.



Certified Public Accountants

Green Bay, Wisconsin

May 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Great Lakes Utilities

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017

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, 2017.

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

Financial Highlights from 2017

Through its operating services agreement with Manitowoc Public Utilities (MPU), GLU performs market participant functions in the Midcontinent Independent System Operator (MISO) on behalf of its GLU-East power supply members. In 2017, GLU successfully took over load assets (EPnodes) for the GLU-West members, which will enable GLU to function as their MISO market participant as of January 1, 2018.

\$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.

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

Overview of the Financial Statements

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

Great Lakes Utilities

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017

Financial Analysis

Table 1

Condensed Statement of Net Position

	2017	2016	Dollar Change	Percent Change
Current Assets				
Cash and investments	\$ 18,739,423	\$ 19,831,141	\$ (1,091,718)	-5.5%
Other	8,289,716	8,456,343	(166,627)	-2.0%
	<u>27,029,139</u>	<u>28,287,484</u>	<u>(1,258,345)</u>	-4.4%
Restricted Assets	7,427,239	5,370,807	2,056,432	38.3%
Other Assets	<u>2,548,246</u>	<u>2,544,820</u>	<u>3,426</u>	0.1%
Total Assets	<u>\$ 37,004,624</u>	<u>\$ 36,203,111</u>	<u>\$ 801,513</u>	2.2%
Current Liabilities and Other Accrued Expenses	\$ 8,439,967	\$ 8,315,804	\$ 124,163	1.5%
Rate Stabilization Deposits	7,427,240	5,370,807	2,056,433	38.3%
Notes Payable	<u>1,900,000</u>	<u>1,900,000</u>	<u>-</u>	0.0%
Total Liabilities	<u>17,767,207</u>	<u>15,586,611</u>	<u>2,180,596</u>	14.0%
Total Net Position	<u>19,237,417</u>	<u>20,616,500</u>	<u>(1,379,083)</u>	-6.7%
Total Liabilities and Net Position	<u>\$ 37,004,624</u>	<u>\$ 36,203,111</u>	<u>\$ 801,513</u>	2.2%

Variance Explanations

- Investments of money market and fixed income securities were purchased during 2017 and 2016.

Great Lakes Utilities

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017

Table 2

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2017	2016	Dollar Change	Percent Change
Power Supply Billings	\$ 99,395,799	\$ 102,050,946	\$ (2,655,147)	-2.6%
Member Assessments	110,000	132,700	(22,700)	-17.1%
Total Revenues	99,505,799	102,183,646	(2,677,847)	-2.6%
Power Supply Expenses	86,269,067	83,162,728	3,106,339	3.7%
West Power Supply Expenses	12,193,053	11,802,742	390,311	3.3%
Wind Expenses	2,310,999	2,960,247	(649,248)	-21.9%
Administrative and General Expenses	101,366	95,560	5,806	6.1%
Total Expenses	100,874,485	98,021,277	2,853,208	2.9%
Operating Income (Loss)	(1,368,686)	4,162,369	(5,531,055)	-132.9%
Nonoperating Revenues (Expenses)	(10,397)	(70,053)	59,656	-85.2%
Change in Net Position	(1,379,083)	4,092,316	(5,471,399)	-133.7%
Net Position - Beginning	20,616,500	16,524,184	4,092,316	24.8%
Net Position - Ending	\$ 19,237,417	\$ 20,616,500	\$ (1,379,083)	-6.7%

Variance Explanations

- Power supply rates were reduced 5% in 2017 to use excess cash reserves.
- Wind farm energy production down in 2017 while MISO energy pricing increased.

Table 3

Net Plant Activity

	2017	2016	Dollar Change	Percent Change
Equipment	\$ 237,935	\$ 237,935	\$ -	0.0%
Less Accumulated Depreciation	(237,935)	(237,935)	-	0.0%
Net Capital Assets	\$ -	\$ -	\$ -	0.0%

Variance Explanations

- Nothing significant to report.

Great Lakes Utilities

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017

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.
 - 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 and Lakeswind power purchase agreement.

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, 2017
WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and investments	\$ 18,739,423	\$ 19,831,141
Receivables		
Customer accounts	7,639,696	8,128,573
Prepaid items	<u>650,020</u>	<u>327,770</u>
Total current assets	<u>27,029,139</u>	<u>28,287,484</u>
Noncurrent assets		
Restricted assets		
Cash and investments	<u>7,427,239</u>	<u>5,370,807</u>
Other assets		
MISO collateral deposit	<u>2,548,246</u>	<u>2,544,820</u>
Total assets	<u>37,004,624</u>	<u>36,203,111</u>
LIABILITIES		
Current liabilities		
Accounts payable	<u>8,439,967</u>	<u>8,315,804</u>
Long-term obligations, less current portion		
Rate stabilization deposits	7,427,240	5,370,807
Notes payable	<u>1,900,000</u>	<u>1,900,000</u>
Total long-term obligations	<u>9,327,240</u>	<u>7,270,807</u>
Total liabilities	<u>17,767,207</u>	<u>15,586,611</u>
NET POSITION		
Unrestricted	<u>\$ 19,237,417</u>	<u>\$ 20,616,500</u>

The notes to the financial statements are an integral part of this statement.

Great Lakes Utilities

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Member assessments	\$ 110,000	\$ 132,700
Power supply		
Billings	99,264,914	101,911,259
Supply charges	<u>130,885</u>	<u>139,687</u>
Total operating revenues	<u>99,505,799</u>	<u>102,183,646</u>
OPERATING EXPENSES		
Power supply		
Purchased power	91,419,020	88,365,036
Transmission costs	8,808,606	9,005,053
Outside services		
Legal and intervention	62,720	94,780
Technical services - consultant	145,895	142,084
Technical services - Manitowoc Public Utilities	290,798	281,088
Insurance expense	10,474	10,474
Administrative and general		
Administrative services	86,421	75,112
Meeting expenses	14,947	20,450
Supplies and other expenses	<u>35,604</u>	<u>27,200</u>
Total operating expenses	<u>100,874,485</u>	<u>98,021,277</u>
Operating income (loss)	<u>(1,368,686)</u>	<u>4,162,369</u>
NONOPERATING REVENUES (EXPENSES)		
Investment return (loss)	185,868	(50,613)
Interest and investment fees	<u>(196,265)</u>	<u>(19,440)</u>
Total nonoperating revenues (expenses)	<u>(10,397)</u>	<u>(70,053)</u>
Change in net position	(1,379,083)	4,092,316
Net position - January 1	<u>20,616,500</u>	<u>16,524,184</u>
Net position - December 31	<u>\$ 19,237,417</u>	<u>\$ 20,616,500</u>

The notes to the financial statements are an integral part of this statement.

Great Lakes Utilities

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 99,994,676	\$ 101,534,779
Cash paid to suppliers	(101,072,572)	(97,844,312)
Net cash provided (used) by operating activities	<u>(1,077,896)</u>	<u>3,690,467</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Rate stabilization deposits received (paid)	2,056,433	3,889,989
Interest allocated to rate stabilization deposit	(175,128)	-
Interest paid on notes	(24,563)	(19,440)
Net cash provided (used) by noncapital financing activities	<u>1,856,742</u>	<u>3,870,549</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment return	<u>185,868</u>	<u>(50,613)</u>
Change in cash and cash equivalents	<u>964,714</u>	<u>7,510,403</u>
Cash and cash equivalents - January 1	<u>25,201,948</u>	<u>17,691,545</u>
Cash and cash equivalents - December 31	<u>\$ 26,166,662</u>	<u>\$ 25,201,948</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (1,368,686)	\$ 4,162,369
Adjustments to reconcile operating income (loss) to net cash provided by (used) by operating activities		
Change in operating assets and liabilities		
Accounts receivable	488,877	(648,867)
Prepaid items	(322,250)	(258,333)
Accounts payable	124,163	435,298
Net cash provided (used) by operating activities	<u>\$ (1,077,896)</u>	<u>\$ 3,690,467</u>
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents in current assets	\$ 18,739,423	\$ 19,831,141
Cash and cash equivalents in restricted assets	<u>7,427,239</u>	<u>5,370,807</u>
Total cash and cash equivalents	<u>\$ 26,166,662</u>	<u>\$ 25,201,948</u>
Noncash capital and related financing activities		
None		

The notes to the financial statements are an integral part of this statement.

Great Lakes Utilities

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Great Lakes Utilities ("GLU") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by GLU are described below:

A. REPORTING ENTITY

GLU is a municipal electric company formed under Wisconsin Statute 66.0825. As such, it is a public body and a political subdivision of the State of Wisconsin with separate legal status 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.

In accordance with GAAP, the financial statements are required to include GLU and any separate component units that have a significant operational or financial relationship with GLU. GLU has not identified any component units that are required to be included in the financial statements in accordance with standards established in GASB Statement No. 61.

B. ENTERPRISE FUND

The accounts of GLU are accounted for as an enterprise fund as required by GAAP. An enterprise fund is used to account for government operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

GLU's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Unpaid customer accounts receivable are recorded at year end.

GLU distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivery goods in connection with GLU's principal ongoing operations. The principal operating revenues of GLU is charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Great Lakes Utilities

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION

1. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less from date of acquisition are considered to be cash equivalents.

2. Accounts Receivable

Accounts receivable are recorded at gross amounts 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.

3. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items and are accounted for on the consumption method.

4. Capital Assets

Capital assets, which include equipment, are reported in the financial statements. Capital assets are defined by GLU as assets with an initial, individual costs 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 acquisition 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 GLU are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment	6

5. Net Position

Net position is displayed in three components:

- ▶ **Net investment in capital assets.** Amount of 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.
- ▶ **Restricted net position.** Amount of net position that is subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- ▶ **Unrestricted net position.** Net position that is neither classified as restricted nor as net investment in capital assets.

Great Lakes Utilities

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

E. 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.

F. PRIOR YEAR INFORMATION

Comparative amounts for the prior year have been presented in the financial statements to provide an understanding of changes in GLU's financial position and operations. The comparative amounts may be summarized in total and 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, 2016, from which the summarized information was derived.

G. RECLASSIFICATIONS

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.

NOTE 2: DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

GLU maintains various cash and investment accounts that are restricted by 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 \$26,166,662 on December 31, 2017 as summarized below:

Deposits with financial institutions	\$ 4,198,540
Investments	21,968,122
	<u>\$ 26,166,662</u>

Reconciliation to the basic financial statements:

Government-wide Statement of Net Position	
Cash and investments	\$ 18,739,423
Restricted cash and investments	7,427,239
	<u>\$ 26,166,662</u>

Great Lakes Utilities

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Fair Value Measurements

GLU categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant observable inputs; Level 3 inputs are significant unobservable inputs. GLU has the following fair value measurements as of December 31, 2017:

	Fair Value Measurements Using:		
	Level 1	Level 2	Level 3
Investments			
U.S. Treasury securities	\$ -	\$ 10,201,230	\$ -
Money Market Mutual Funds	2,415,160	-	-
Corporate Bonds	-	8,364,061	-
Federal Home Loan Mortgage Corporation	-	987,672	-
	<u>\$ 2,415,160</u>	<u>\$ 19,552,963</u>	<u>\$ -</u>

Deposits and investments of GLU are subject to various risks. Presented below is a discussion of GLU's deposits and investments and the related risks.

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 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. Deposits with credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF) in the amount of \$250,000 per credit union member. 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. This coverage has been considered in determining custodial credit risk.

As of December 31, 2017, \$3,303,490 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, 2017

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 investment in securities to the top two ratings assigned by nationally recognized statistical rating organizations. Presented below is the actual rating as of the year-end for each investment type.

Investment Type	Amount	Exempt from Disclosure	AAA	AA	A	Not Rated
U.S. treasury notes	\$ 10,201,230	\$ 10,201,230	\$ -	\$ -	\$ -	\$ -
Money market mutual funds	2,415,160	-	-	-	-	2,415,160
Corporate bonds	8,364,060	-	871,418	4,395,354	3,097,288	-
Federal Home Loan Mortgage Corporation	987,672	-	987,672	-	-	-
Totals	<u>\$ 21,968,122</u>	<u>\$ 10,201,230</u>	<u>\$ 1,859,090</u>	<u>\$ 4,395,354</u>	<u>\$ 3,097,288</u>	<u>\$ 2,415,160</u>

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 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
U.S. Treasury notes	\$ 10,201,230	\$ 4,218,890	\$ -	\$ 5,393,824	\$ 588,516
Money Market Mutual Funds	2,415,160	2,415,160	-	-	-
Corporate Bonds	8,364,060	1,815,800	1,832,843	4,193,563	521,854
Federal Home Loan Mortgage Corporation	987,672	-	987,672	-	-
Totals	<u>\$ 21,968,122</u>	<u>\$ 8,449,850</u>	<u>\$ 2,820,515</u>	<u>\$ 9,587,387</u>	<u>\$ 1,110,370</u>

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
Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates.	\$ 987,672

Great Lakes Utilities

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

B. RESTRICTED CASH AND INVESTMENTS

Restricted assets on December 31, 2017 totaled \$7,427,239 and consisted of cash and investments held for rate stabilization deposits.

C. MIDCONTINENT INDEPENDENT SYSTEM OPERATOR COLLATERAL DEBT

As of December 31, 2017, GLU delivered \$2,548,246 to Midcontinent Independent 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 payable to GLU quarterly, provided there are no instances of default.

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Equipment	\$ 237,935	\$ -	\$ -	\$ 237,935
Less accumulated depreciation	237,935	-	-	237,935
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets	\$ -	\$ -	\$ -	\$ -

E. LINE OF CREDIT

GLU has established a \$1,000,000 line of credit with Investors Community Bank. As of December 31, 2017, GLU has not drawn on this line of credit.

F. NOTES PAYABLE

In 2009, GLU issued notes payable to provide cash for operating activities. The maturity date of the notes has been subsequently extended. The notes are now due on February 1, 2020 and automatically renew unless either party decides to terminate the note within 120 days prior to the end of the term, with quarterly interest payments. Interest is calculated quarterly based on the JP Morgan Chase 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, 2017 was \$1,900,000 detailed as follows:

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

Great Lakes Utilities

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

NOTE 3: OTHER INFORMATION

A. 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. Payments of premiums for these policies are recorded as expenses of GLU.

B. CONTINGENCIES

From time to time, GLU is party to other 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.

C. 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 the 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, 2017, GLU has recorded a current liability to MPU of \$36,317 for management services rendered.

D. 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 81.0%.

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, Wisconsin, (the "GLU") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise GLU's financial statements, and have issued our report thereon dated May 9, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered GLU's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GLU's internal control. Accordingly, we do not express an opinion on the effectiveness of GLU's 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 GLU's 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 GLU's 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 GLU's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GLU's internal control and on compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

Green Bay, Wisconsin
May 9, 2018