

**ANNUAL REPORT
OF
GREAT LAKES UTILITIES
FOR THE YEAR ENDING
DECEMBER 31, 2006**

2006 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. In 2004, GLU entered into agreements to provide full requirements service to member communities Clintonville, Shawano, Wisconsin Rapids and Kiel, as well as partial requirements service to Manitowoc.

SIGNIFICANT ACCOMPLISHMENTS- 2006

In January, 2006, the Board passed a resolution implementing its 2005 Integration Plan. The resolution authorized GLU's consultants to develop a GLU system rate and long term member contracts so as to facilitate the integration of member loads. The resolution applied initially to members Wisconsin Rapids, Kiel, Clintonville, Shawano and Manitowoc, all of which have been served by GLU under interim power supply contracts since February 2004.

In 2006, the Board also passed resolutions implementing a rate stabilization policy and associated investment policy for full requirements, as well as partial requirements customers.

MEMBER COMMUNITIES

Clintonville, Kiel, Manitowoc, Marshfield, Medford, Rice Lake, Shawano and Wisconsin Rapids.

The combined 2006 load of the GLU members was approximately 370 MW and 1,989,266 MWH.

BOARD OF DIRECTORS

Penny Kettenhoven, City of Clintonville

Dennis Dederling, City of Kiel

Nilaksh Kothari, City of Manitowoc

Joseph Pacovsky, City of Marshfield

Michael Frey, City of Medford

Scott Reimer, City of Rice Lake

Andrew Onesti, City of Shawano

Rick Skifton, City of Wisconsin Rapids

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2006

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.

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.

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.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2006

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

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

<u>Assets</u>	Years
Equipment	6

d. Net Assets

GASB Statement No. 34 requires the classification of net assets into three components. These classifications are defined as follows:

- 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, 2005, from which the summarized information was derived.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2006

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 are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts. In addition, 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, 2006, \$880,006 of GLU's deposits with financial institutions were in excess of federal and state depository insurance limits.

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 policy.

NOTE C - RESTRICTED ASSETS

Restricted assets on December 31, 2006 totaled \$1,347,847 and consisted of cash and investments held for rate stabilization deposits.

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated				
Equipment	\$ 237,935	\$ -	\$ -	\$ 237,935
Less accumulated depreciation	3,367	33,990	-	37,357
Total capital assets being depreciated, net	<u>\$ 234,568</u>	<u>\$ (33,990)</u>	<u>\$ -</u>	200,578
Less related long-term obligations				<u>237,935</u>
Invested in capital assets net of related long-term obligations				<u>\$ (37,357)</u>

NOTE E - 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, 2006

NOTE F - CONTINGENT LIABILITIES

From time to time the Utility 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 the Utilities' Attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Utilities financial position or results of operations.

NOTE G - 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.

GREAT LAKES UTILITIES
Statements of Net Assets
December 31, 2006
With Comparative Information as of December 31, 2005

	2006	2005
ASSETS		
Current Assets		
Cash	\$ 77,697	\$ 126,501
Accounts receivable	2,843,040	3,227,771
Total Current Assets	<u>2,920,737</u>	<u>3,354,272</u>
Noncurrent Assets		
Restricted cash and investments	1,347,847	-
Equipment	237,935	237,935
Accumulated amortization	(37,357)	(3,367)
Total Noncurrent Assets	<u>1,548,425</u>	<u>234,568</u>
Total Assets	<u>4,469,162</u>	<u>3,588,840</u>
LIABILITIES		
Current Liabilities		
Accounts payable	<u>2,874,225</u>	<u>3,289,912</u>
Noncurrent Liabilities		
Accounts payable - Manitowoc Public Utilities	237,935	237,935
Rate stabilization deposits	1,336,907	-
Total Noncurrent Liabilities	<u>1,574,842</u>	<u>237,935</u>
Total Liabilities	<u>4,449,067</u>	<u>3,527,847</u>
NET ASSETS		
Invested in capital assets, net of related debt	(37,357)	(3,367)
Unrestricted	<u>57,452</u>	<u>64,360</u>
Total Net Assets	<u>\$ 20,095</u>	<u>\$ 60,993</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Statements of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2006
With Comparative Information for the Year Ended December 31, 2005

	2006	2005
Operating Revenues		
Member assessments	\$ 119,749	\$ 233,900
Power supply		
Billings	41,467,009	42,615,258
Supply charges	1,058,605	550,441
Total Operating Revenues	<u>42,645,363</u>	<u>43,399,599</u>
Operating Expenses		
Power supply		
Purchased power	41,467,009	42,615,258
Phone lines	3,692	4,159
Outside services		
Legal and consulting	616,699	260,073
Management services	29,579	24,068
Technical services	509,316	465,803
Insurance expense	16,592	16,592
Administrative and general		
Secretarial services	2,922	3,367
Accounting services	2,000	1,900
Treasury services	5,000	-
Supplies and other expenses	10,589	12,902
Amortization	33,990	3,367
Total Operating Expenses	<u>42,697,388</u>	<u>43,407,489</u>
Operating Income (Loss)	<u>(52,025)</u>	<u>(7,890)</u>
Nonoperating Revenues		
Interest	<u>11,127</u>	<u>-</u>
Net Income (Loss)	(40,898)	(7,890)
Net Assets - January 1	<u>60,993</u>	<u>68,883</u>
Net Assets - December 31	<u>\$ 20,095</u>	<u>\$ 60,993</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Statements of Cash Flows
Year Ended December 31, 2006
With Comparative Information for the Year Ended December 31, 2005

	2006	2005
Cash Flows from Operating Activities		
Cash received from customers	\$ 43,030,094	\$ 42,932,618
Cash paid to suppliers	(43,079,085)	(42,807,204)
Net Cash Provided (Used) by Operating Activities	<u>(48,991)</u>	<u>125,414</u>
Cash Flows from Noncapital Financing Activities		
Rate stabilization deposits received	<u>1,336,907</u>	<u>-</u>
Cash Flows from Capital Financing Activities		
Acquisition of capital assets	-	(237,935)
Accounts payable - Manitowoc Public Utilities	-	237,935
Net Cash Provided by Capital Financing Activities	<u>-</u>	<u>-</u>
Cash Flows from Investing Activities		
Interest received	<u>11,127</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	1,299,043	125,414
Cash and Cash Equivalents - January 1	<u>126,501</u>	<u>1,087</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 1,425,544</u></u>	<u><u>\$ 126,501</u></u>
Reconciliation to Statement of Net Assets		
Cash and investments included in current assets	\$ 77,697	\$ 126,501
Restricted cash and investments	1,347,847	-
Total Cash and Cash Equivalents	<u><u>\$ 1,425,544</u></u>	<u><u>\$ 126,501</u></u>
Cash Flows from Operating Activities		
Operating income (loss)	\$ (52,025)	\$ (7,890)
Amortization	33,990	3,367
Cash provided (used) by changes in assets and liabilities		
Accounts receivable	384,731	(466,981)
Accounts payable	(415,687)	596,918
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (48,991)</u></u>	<u><u>\$ 125,414</u></u>

The accompanying notes are an integral part of these statements.