

**ANNUAL REPORT
OF
GREAT LAKES UTILITIES
FOR THE YEAR ENDING
DECEMBER 31, 2008**

2008 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 interim agreements to provide full requirements service to member communities Clintonville, Shawano, Wisconsin Rapids and Kiel, as well as partial requirements service to Manitowoc ("Power Supply Members"). In 2007, GLU executed long term (25-year) power supply contracts with the Power Supply Members.

SIGNIFICANT ACCOMPLISHMENTS- 2008

As of January 1, 2008, the Power Supply Members began paying system average rates for capacity and energy. In addition to its existing power supply agreements with Wisconsin Public Service Corporation and Manitowoc Public Utilities, GLU negotiated and executed two major long term agreements with other power suppliers. In March, 2008, GLU finalized a Second Revised Master Power Supply Agreement with Wisconsin Power and Light, which included a right to convert to partial requirements service and a ten year term extension. GLU also negotiated and finalized a long-term (20 year) power supply agreement with Wisconsin Electric Power Company ("WEPCO") under WEPCO's Market Rate Tariff. At the end of the year, GLU began negotiations with WPPI Energy on a 15 MW capacity agreement.

In addition to these efforts to increase and diversify its power supply portfolio, GLU stepped up activities related to the development of renewable resource project opportunities in anticipation of future renewable portfolio standard requirements.

GLU administrative staff also worked closely with representatives of the Midwest Independent System Operator, Inc. ("MISO") in preparation for anticipated assumption of MISO market participant responsibilities in 2009.

MEMBER COMMUNITIES

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

The combined 2008 load of the GLU members was approximately 350 MW and 1,904,000 MWhs. Load served by GLU for its Power Supply Members was approximately 120 MW and 767,000 MWhs.

2008 BOARD OF DIRECTORS

Mike McCord, Clintonville
Dennis Dederling, Kiel (Secretary)
Nilaksh Kothari, Manitowoc
Joseph Pacovsky, Marshfield (Chair)

Michael Frey, Medford (Vice Chair)
Scott Reimer, City of Rice Lake
Okho Bohm Hagedorn, Shawano
Jem Brown, Wisconsin Rapids (Treasurer)

GREAT LAKES UTILITIES
Statement of Net Assets
December 31, 2008
With Comparative Information as of December 31, 2007

	2008	2007
ASSETS		
Current Assets		
Cash	\$ 1,401,365	\$ 175,478
Accounts receivable	4,210,509	3,544,699
Total Current Assets	<u>5,611,874</u>	<u>3,720,177</u>
Noncurrent Assets		
Restricted cash and investments	1,277,306	2,720,924
MISO collateral deposit	899,946	-
Equipment	237,935	237,935
Accumulated amortization	(105,337)	(71,347)
Total Noncurrent Assets	<u>2,309,850</u>	<u>2,887,512</u>
Total Assets	<u>7,921,724</u>	<u>6,607,689</u>
LIABILITIES		
Current Liabilities		
Accounts payable	4,446,496	3,664,559
Noncurrent Liabilities		
Accounts payable - Manitowoc Public Utilities	237,935	237,935
Line of credit	1,000,000	-
Rate stabilization deposits	1,168,946	2,644,130
Total Noncurrent Liabilities	<u>2,406,881</u>	<u>2,882,065</u>
Total Liabilities	<u>6,853,377</u>	<u>6,546,624</u>
NET ASSETS		
Invested in capital assets, net of related debt	(105,337)	(71,347)
Unrestricted	1,173,684	132,412
Total Net Assets	<u>\$ 1,068,347</u>	<u>\$ 61,065</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2008
With Comparative Information for the Year Ended December 31, 2007

	2008	2007
Operating Revenues		
Member assessments	\$ 67,665	\$ 78,000
Power supply		
Billings	47,217,651	45,909,781
Supply charges	481,172	783,160
Total Operating Revenues	47,766,488	46,770,941
Operating Expenses		
Power supply		
Purchased power	46,130,258	45,910,986
Phone lines	4,257	4,019
Outside services		
Legal and consulting	159,239	268,004
Management services	43,675	23,594
Technical services	167,117	511,395
Insurance expense	16,176	16,409
Administrative and general		
Secretarial services	2,197	3,200
Accounting services	2,200	2,000
Supplies and other expenses	231,663	23,432
Amortization	33,990	33,990
Total Operating Expenses	46,790,772	46,797,029
Operating Income (Loss)	975,716	(26,088)
Nonoperating Revenues		
Interest	31,566	67,058
Net Income	1,007,282	40,970
Net Assets - January 1	61,065	20,095
Net Assets - December 31	\$ 1,068,347	\$ 61,065

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Statement of Cash Flows
Year Ended December 31, 2008
With Comparative Information for the Year Ended December 31, 2007

	2008	2007
Cash Flows from Operating Activities		
Cash received from customers	\$ 47,100,678	\$ 46,069,282
Cash paid to suppliers	(45,974,845)	(45,972,705)
Net Cash Provided by Operating Activities	<u>1,125,833</u>	<u>96,577</u>
Cash Flows from Noncapital Financing Activities		
Rate stabilization deposits received (paid)	(1,475,184)	1,307,223
Draw on line of credit	1,000,000	-
MISO collateral deposit	(899,946)	-
Net Cash Provided by Noncapital Financing Activities	<u>(1,375,130)</u>	<u>1,307,223</u>
Cash Flows from Investing Activities		
Interest received	<u>31,566</u>	<u>67,058</u>
Net Change in Cash and Cash Equivalents	(217,731)	1,470,858
Cash and Cash Equivalents - January 1	<u>2,896,402</u>	<u>1,425,544</u>
Cash and Cash Equivalents - December 31	<u>\$ 2,678,671</u>	<u>\$ 2,896,402</u>
Reconciliation to Statement of Net Assets		
Cash and investments included in current assets	\$ 1,401,365	\$ 175,478
Restricted cash and investments	1,277,306	2,720,924
Total Cash and Cash Equivalents	<u>\$ 2,678,671</u>	<u>\$ 2,896,402</u>
Cash Flows from Operating Activities		
Operating income (loss)	\$ 975,716	\$ (26,088)
Amortization	33,990	33,990
Cash provided (used) by changes in assets and liabilities		
Accounts receivable	(665,810)	(701,659)
Accounts payable	781,937	790,334
Net Cash Provided by Operating Activities	<u>\$ 1,125,833</u>	<u>\$ 96,577</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2008

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.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2008

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

c. Capital Assets

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

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

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

<u>Assets</u>	Years
Equipment	6

d. Net Assets

Net assets are classified into the following three components:

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

5. Use of Estimates

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

6. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2008

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 \$250,000 per official custodian through December 31, 2009. In addition, the City's non-interest bearing transaction accounts are fully insured under the Temporary Liquidity Guarantee Program through December 31, 2009. On January 1, 2010, the coverage limit for all accounts will return to \$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, 2008, \$2,028,905 of GLU's deposits with financial institutions were in excess of federal and state depository insurance limits and uncollateralized.

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

NOTE C - RESTRICTED ASSETS

Restricted assets on December 31, 2008 totaled \$1,277,306 and consisted of cash and investments held for rate stabilization deposits.

NOTE D - MISO COLLATERAL DEPOSIT

On November 18, 2008 GLU delivered \$899,946 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.

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated				
Equipment	\$ 237,935	\$ -	\$ -	\$ 237,935
Less accumulated depreciation	71,347	33,990	-	105,337
Total capital assets being depreciated, net	<u>\$ 166,588</u>	<u>\$ (33,990)</u>	<u>\$ -</u>	<u>132,598</u>
Less related long-term obligations				<u>237,935</u>
Invested in capital assets net of related long-term obligations				<u><u>\$ (105,337)</u></u>

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2008

NOTE F - LINE OF CREDIT

GLU has established a line of credit with US Bank. As of December 31, 2008, GLU had drawn \$1,000,000 on this line of credit, which is the maximum amount authorized. The applicable interest rate on the outstanding balance at December 31, 2008 was 3.25%.

NOTE G - 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 H - 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 I - 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, 2008, GLU has recorded a noncurrent liability to MPU of \$237,935 for capital equipment utilized by GLU and GLU has recorded a current liability to MPU of \$28,751 for management services rendered.