

**ANNUAL REPORT
OF
GREAT LAKES UTILITIES
FOR THE YEAR ENDING
DECEMBER 31, 2009**

2009 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- 2009

GLU added to its power supply portfolio by executing a purchase and sale agreement with WPPI Energy for 15 MW of contract capacity.

GLU successfully converted its wholesale power agreement with Alliant Energy from full requirements to partial requirements service in order to achieve reduced energy rates and capacity charges.

GLU assumed full operational responsibility for energy market activities with the Midwest Independent System Operator, Inc. ("MISO") on behalf of its full requirements power supply members and became a voting member in MISO as a member of the Municipals, Cooperatives and Transmission Dependent Utilities Sector.

GLU developed a renewable energy rate rider program and tariff allowing members to voluntarily purchase more of their energy requirements from renewable sources. GLU also assumed responsibility for handling renewable reporting requirements within the M-RETS system on behalf of its power supply members.

GLU issued a Request for Proposal (RFP) for a study of renewable energy resources alternatives and engaged Burns and McDonnell to perform the study. GLU actively pursued development of renewable resource project opportunities and successfully bid on a potential acquisition of hydroelectric facilities situated along the Wisconsin River and currently owned by affiliates of NewPage Corporation. At year end, GLU was in the process of negotiating the terms of the proposed asset purchase Agreement with NewPage.

GLU developed a market-based interruptible tariff for use by members with large industrial retail customers.

GLU engaged the services of R.W. Beck to provide a thorough review of its operational and management policies and procedures.

MEMBER COMMUNITIES

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

The combined 2009 load of the GLU members was approximately 364 MW and 1,800,000 MWHs. Load served by GLU for its Power Supply Members was approximately 130 MW and 787,000 MWHs.

2009 BOARD OF DIRECTORS

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

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

GREAT LAKES UTILITIES
Statement of Net Assets
December 31, 2009
With Comparative Information as of December 31, 2008

	2009	2008
ASSETS		
Current Assets		
Cash	\$ 309,552	\$ 1,401,365
Accounts receivable	3,831,862	4,210,509
Total Current Assets	<u>4,141,414</u>	<u>5,611,874</u>
Noncurrent Assets		
Restricted cash and investments	737,163	1,277,306
MISO collateral deposit	920,799	899,946
Equipment	237,935	237,935
Accumulated amortization	(139,327)	(105,337)
Total Noncurrent Assets	<u>1,756,570</u>	<u>2,309,850</u>
Total Assets	<u>5,897,984</u>	<u>7,921,724</u>
LIABILITIES		
Current Liabilities		
Accounts payable	<u>4,312,459</u>	<u>4,446,496</u>
Noncurrent Liabilities		
Accounts payable - Manitowoc Public Utilities	178,451	237,935
Line of credit	-	1,000,000
Rate stabilization deposits	661,689	1,168,946
Notes payable	900,000	-
Total Noncurrent Liabilities	<u>1,740,140</u>	<u>2,406,881</u>
Total Liabilities	<u>6,052,599</u>	<u>6,853,377</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	(79,843)	(105,337)
Unrestricted (Deficit)	<u>(74,772)</u>	<u>1,173,684</u>
Total Net Assets (Deficit)	<u>\$ (154,615)</u>	<u>\$ 1,068,347</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, 2009
With Comparative Information for the Year Ended December 31, 2008

	2009	2008
Operating Revenues		
Member assessments	\$ 239,700	\$ 67,665
Power supply		
Billings	51,745,774	47,217,651
Supply charges	(464,193)	481,172
Total Operating Revenues	<u>51,521,281</u>	<u>47,766,488</u>
Operating Expenses		
Power supply		
Purchased power	52,037,511	46,130,258
Phone lines	4,933	4,257
Outside services		
Legal and consulting	158,733	159,239
Management services	52,291	43,675
Technical services	352,907	167,117
Insurance expense	11,775	16,176
Administrative and general		
Secretarial services	1,523	2,197
Accounting services	2,300	2,200
Supplies and other expenses	50,902	231,663
Amortization	33,990	33,990
Total Operating Expenses	<u>52,706,865</u>	<u>46,790,772</u>
Operating Income (Loss)	<u>(1,185,584)</u>	<u>975,716</u>
Nonoperating Revenues (Expenses)		
Investment return	(25,773)	31,566
Interest expense	(11,605)	-
Total Nonoperating Revenues (Expenses)	<u>(37,378)</u>	<u>31,566</u>
Change in Net Assets	(1,222,962)	1,007,282
Net Assets - January 1	<u>1,068,347</u>	<u>61,065</u>
Net Assets (Deficit) - December 31	<u>\$ (154,615)</u>	<u>\$ 1,068,347</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Statement of Cash Flows
Year Ended December 31, 2009
With Comparative Information for the Year Ended December 31, 2008

	2009	2008
Cash Flows from Operating Activities		
Cash received from customers	\$ 51,899,928	\$ 47,100,678
Cash paid to suppliers	(52,806,912)	(45,974,845)
Net Cash Provided (Used) by Operating Activities	<u>(906,984)</u>	<u>1,125,833</u>
Cash Flows from Noncapital Financing Activities		
Rate stabilization deposits received (paid)	(507,257)	(1,475,184)
Draw on line of credit	(1,000,000)	1,000,000
Notes payable proceeds	900,000	-
Interest paid on notes	(11,605)	-
MISO collateral deposit	(20,853)	(899,946)
Net Cash Provided by Noncapital Financing Activities	<u>(639,715)</u>	<u>(1,375,130)</u>
Cash Flows from Capital Financing Activities		
Repayment of amount due to Manitowoc Utilities	<u>(59,484)</u>	<u>-</u>
Cash Flows from Investing Activities		
Interest received	<u>(25,773)</u>	<u>31,566</u>
Net Change in Cash and Cash Equivalents	(1,631,956)	(217,731)
Cash and Cash Equivalents - January 1	<u>2,678,671</u>	<u>2,896,402</u>
Cash and Cash Equivalents - December 31	<u>\$ 1,046,715</u>	<u>\$ 2,678,671</u>
Reconciliation to Statement of Net Assets		
Cash and investments included in current assets	\$ 309,552	\$ 1,401,365
Restricted cash and investments	737,163	1,277,306
Total Cash and Cash Equivalents	<u>\$ 1,046,715</u>	<u>\$ 2,678,671</u>
Cash Flows from Operating Activities		
Operating income (loss)	\$ (1,185,584)	\$ 975,716
Amortization	33,990	33,990
Cash provided (used) by changes in assets and liabilities		
Accounts receivable	378,647	(665,810)
Accounts payable	(134,037)	781,937
Net Cash Provided (Used) by Operating Activities	<u>\$ (906,984)</u>	<u>\$ 1,125,833</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2009

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.

Power supply billings are made in accordance with approved tariffs. The approved tariffs for 2008 called for true-up calculations after the first quarter of 2009. Those true-up calculations resulted in approximately \$607,000 in refunds back to members, which was included as part of operating income.

Member assessments are determined and billed annually to cover general and administrative budget items. Special assessments may be determined and billed for special projects. Special assessments of \$100,000 were billed in 2009 to cover the preliminary costs associated with the hydroelectric project feasibility study.

3. Enterprise Fund Accounting Principles

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

4. Assets, Liabilities and Net Assets

a. Cash

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

b. Accounts Receivable

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

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2009

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, 2008, from which the summarized information was derived.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2009

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, 2013. In addition, the Utility's non-interest bearing transaction accounts are fully insured under the Temporary Liquidity Guarantee Program through June 30, 2010. On January 1, 2014, 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, 2009, none of GLU's deposits with financial institutions were in excess of federal and state depository insurance limits and uncollateralized.

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

NOTE C - RESTRICTED ASSETS

Restricted assets on December 31, 2009 totaled \$737,163 and consisted of cash and investments held for rate stabilization deposits.

NOTE D - MISO COLLATERAL DEPOSIT

As of December 31, 2009 GLU delivered \$920,799 to the Midwest Independent Transmission System Operator, Inc. (MISO), under a cash collateral agreement. The deposit will be held under the name of MISO for the benefit of GLU. The deposit account shall be drawn upon in case of payment default by GLU. The deposit shall be interest bearing and interest payments will be made to GLU quarterly provided there are no instances of default.

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated				
Equipment	\$ 237,935	\$ -	\$ -	\$ 237,935
Less accumulated depreciation	105,337	33,990	-	139,327
Total capital assets being depreciated, net	<u>\$ 132,598</u>	<u>\$ (33,990)</u>	<u>\$ -</u>	98,608
Less related long-term obligations				<u>178,451</u>
Invested in capital assets net of related long-term obligations				<u><u>\$ (79,843)</u></u>

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2009

NOTE F - LINE OF CREDIT

GLU has established a line of credit with US Bank. As of December 31, 2009, GLU has drawn \$0 on this line of credit of \$1,000,000.

NOTE G - NOTES PAYABLE

In 2009, GLU issued notes payable to provide cash for operating activities. The notes are due on January 1, 2014 with quarterly interest payments. Interest is calculated quarterly based on the JP Morgan Capital daily fluctuating rate plus an adder equivalent to 75% of the cost of borrowing or obtaining a letter of credit for the principal amount (whichever is less) from a designated local private lender. The outstanding balance as of December 31, 2009 was \$900,000.

<u>Outstanding Notes Payable</u>	
Manitowoc Public Utilities	\$ 250,000
Badger Power Marketing Authority, Inc.	250,000
City of Kiel	200,000
Wisconsin Rapids Light and Water Commission	200,000
	<u>\$ 900,000</u>

NOTE H - RISK MANAGEMENT

GLU has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payment of premiums for these policies is recorded as expenses of GLU.

NOTE I - 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 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, 2009, GLU has recorded a noncurrent liability to MPU of \$178,451 for capital equipment utilized by GLU and GLU has recorded a current liability to MPU of \$28,385 for management services rendered.

NOTE K - INTENT TO PURCHASE HYDROELECTRIC PROJECTS

Great Lakes Utilities (GLU) and consolidated Water Power Company (CWPCo), a subsidiary of NewPage Corporation, have signed a letter of intent for GLU to purchase five CWPCo hydroelectric projects located along the Wisconsin River in DuBay, Stevens Point, Whiting, Biron and Wisconsin Rapids, Wisconsin. The five hydroelectric projects have a combined installed capacity of 35.2 megawatts and the agreed upon price is approximately \$2,000 per kilowatt of installed capacity.