

GREAT LAKES UTILITIES
ANNUAL FINANCIAL STATEMENTS
DECEMBER 31, 2011

GREAT LAKES UTILITIES

December 31, 2011

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Great Lakes Utilities

We have audited the accompanying financial statements of Great Lakes Utilities as of and for the year ended December 31, 2011 as listed in the table of contents. These financial statements are the responsibility of Great Lakes Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the Utilities' 2010 financial statements and, in our report dated March 7, 2011 we expressed an unqualified opinion on those financial statements.

We conducted our audits 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 includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Great Lakes Utilities, as of December 31, 2011, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2012, on our consideration of Great Lakes Utilities' internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

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 response 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.

Schmidt SC

Certified Public Accountants
Green Bay, Wisconsin
March 1, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis December 31, 2011

The management of Great Lakes Utilities ("GLU") offers all parties interested in the financial position of GLU an objective, easy to read overview and analysis of GLU's financial performance during the year ending December 31, 2011. Please read the narrative in conjunction with GLU's financial statements.

Financial Highlights from 2011

There are nine new member communities that joined Great Lakes Utilities in 2011. They are: Bangor, Barron, Bloomer, Cadott, Cornell, Medford, Spooner and Trempealeau (Wisconsin) and Wakefield and Escanaba (Michigan). GLU's formation contract was formally amended by the Board to permit inclusion of the non-Wisconsin municipalities, consistent with Wis. Stat. 66.0825.

GLU had negotiated and executed an Asset Sales Agreement (ASA) with Consolidated Water Paper Company (CWPCO) in November, 2010 for the acquisition of five dams and associated facilities on the Wisconsin River for a total of approximately 35 MW hydroelectric generations. The acquisition was expected to be completed before the end of the calendar year 2011 subject to approval by the Public Service Commission. This acquisition was contemplated to help GLU members meet renewable energy requirements mandated by the state of Wisconsin. Regulatory issues on a related sale of CWPCO's distribution assets to Wisconsin Rapids put the intended acquisition of these assets in jeopardy. The parties agreed to cease working on the transaction or pursuing regulatory approval. GLU retains the right to terminate the ASA at any time. We expect to obtain clarity on the status of the proposed acquisition in 2012.

In October 2011, GLU agreed to a fixed price 20 year Power Purchase Agreement with Lakeswind, LLC for a 40 MW wind power from a new wind farm proposed in Western Minnesota. The project is expected to become operational in the first quarter of 2013. 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. The PPA contains a financing contingency that gives GLU a right to terminate the PPA if the developer does not secure project financing by July 1, 2012. It is GLU's understanding that the Project is currently undertaking efforts to secure such financing.

GLU and Manitowoc Public Utilities (MPU) entered into a 10-year, 77 MW capacity purchase contract. The contract enables GLU to purchase 77 MW of base load capacity from MPU and dispatch generation as needed for the energy while allowing MPU to purchase 77 MW capacity and energy for GLU for the same period.

The \$0.9M in notes payable to members was necessary to provide the Midwest Independent Transmission System Operator (MISO) with the collateral deposit for GLU to be a market participant. 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 the members ability to obtain firm electric power and energy at reasonable costs.

The Statement of Net Assets (Table 1) and the Statement of Revenue, Expenses, and Changes in Net Assets (Table 2) provide an indication of GLU's change in financial condition during the last year. GLU's net assets reflect the difference between assets and liabilities. The Statement of Revenues, Expenses and Changes in Net Assets reflect the income and expenses of GLU for the year.

Utility Financial Analysis

Table 1
Condensed Statement of Net Assets

	2011	2010	Dollar Change	Percent Change
Current Assets	\$ 8,480,211	\$ 5,667,011	\$ 2,813,200	49.6%
Hydro Project - Receivable - Refund of Advance	1,000,000	-	1,000,000	
Restricted Assets	218,428	299,565	(81,137)	-27.1%
Net Plant	30,628	1,064,618	(1,033,990)	-97.1%
Other Assets	1,320,799	920,799	400,000	43.4%
Total Assets	11,050,066	7,951,993	3,098,073	39.0%
Current Liabilities and Other Accrued Expenses	6,819,306	5,499,442	1,319,864	24.0%
Member Rate Stabilization Deposits	218,428	299,565	(81,137)	-27.1%
Member Advances for Hydro Project	1,000,000	1,000,000	-	100.0%
Notes Payable to Members	900,000	900,000	-	0.0%
Total Liabilities	8,937,734	7,699,007	1,238,727	16.1%
Invested in Capital Assets, Net of Related Debt	(28,856)	(54,350)	25,494	-46.9%
Unrestricted	2,141,188	307,336	1,833,852	596.7%
Total Net Assets	2,112,332	252,986	1,859,346	735.0%
Total Liabilities & Net Assets	\$ 11,050,066	\$ 7,951,993	\$ 3,098,073	39.0%

Variance Explanations

- Current assets show an increase of \$2.8M and current liabilities show an increase of \$1.3M. The hydro project advance was moved from net plant to a receivable. The project did not work out.

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

	2011	2010	Dollar Change	Percent Change
Power Supply Billings	\$ 69,366,695	\$ 59,668,280	\$ 9,698,415	16.3%
Member Assessments	224,143	1,085,000	(860,857)	-79.3%
Total Revenues	69,590,838	60,753,280	8,837,558	14.5%
Power Supply Expenses	66,719,943	59,261,805	7,458,138	12.6%
Hydro Expenses	312,144	565,534	(253,390)	-44.8%
Wind Expenses	155,461	-	155,461	
Administrative and General Expenses	537,213	513,320	23,893	4.7%
Total Expenses	67,724,761	60,340,659	7,384,102	12.2%
Operating Income	1,866,077	412,621	1,453,456	352.2%
Nonoperating Revenues (Expenses)	(6,731)	(5,020)	(1,711)	34.1%
Change in Net Assets	1,859,346	407,601	1,451,745	356.2%
Beginning Net Assets	252,986	(154,615)	407,601	-263.6%
Total Net Assets - Ending	\$ 2,112,332	\$ 252,986	\$ 1,859,346	735.0%

Variance Explanations

- Power supply billings increased \$9.8M and power supply expenses increased \$7.6M
- Member assessments decreased \$0.8M.
- Administrative and general expenses are up \$0.1M.

**Table 3
Net Plant Activity**

	2010	2010	Dollar Change	Percent Change
Equipment	\$ 237,935	\$ 237,935	\$ -	0.0%
Less Accumulated Depreciation	(207,307)	(173,317)	(33,990)	19.6%
Hydro Acquisition	-	1,000,000	(1,000,000)	100.0%
Net Capital Assets	<u>\$ 30,628</u>	<u>\$ 1,064,618</u>	<u>\$ (1,033,990)</u>	-97.1%

Variance Explanations

- See hydro project note in table 1.

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:

- GLU has a long-term contract with Manitowoc Public Utilities for the purchase of 77 MW of capacity and associated energy.
- GLU makes short-term, non-firm purchases and sales when economic to do so via participation in the MISO market.
- 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 receives renewable energy through its contracted power supply purchases and is seeking cost effective resources to meet the mandated state requirements by 2015.

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.

General information relating to Great Lakes Utilities can be found at www.greatlakesutilities.org.

FINANCIAL STATEMENTS

GREAT LAKES UTILITIES

Statement of Net Assets

December 31, 2011

With Comparative Information as of December 31, 2010

	2011	2010
ASSETS		
Current Assets		
Cash	\$ 1,623,807	\$ 947,514
Accounts receivable	7,856,404	4,719,497
Total Current Assets	<u>9,480,211</u>	<u>5,667,011</u>
Noncurrent Assets		
Restricted cash and investments	218,428	299,565
MISO collateral deposit	1,320,799	920,799
Capital Assets		
Work in progress	-	1,000,000
Equipment	237,935	237,935
Accumulated amortization	(207,307)	(173,317)
Total Noncurrent Assets	<u>1,569,855</u>	<u>2,284,982</u>
Total Assets	<u>11,050,066</u>	<u>7,951,993</u>
LIABILITIES		
Current Liabilities		
Accounts payable	<u>6,759,822</u>	<u>5,380,474</u>
Noncurrent Liabilities		
Accounts payable - Manitowoc Public Utilities	59,484	118,968
Rate stabilization deposits	218,428	299,565
Advance from members for hydroelectric plant purchase	1,000,000	1,000,000
Notes payable	900,000	900,000
Total Noncurrent Liabilities	<u>2,177,912</u>	<u>2,318,533</u>
Total Liabilities	<u>8,937,734</u>	<u>7,699,007</u>
NET ASSETS		
Invested in capital assets, net of related debt	(28,856)	(54,350)
Unrestricted	<u>2,141,188</u>	<u>307,336</u>
Total Net Assets	<u>\$ 2,112,332</u>	<u>\$ 252,986</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIESStatement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2011

With Comparative Information for the Year Ended December 31, 2010

	2011	2010
Operating Revenues		
Member assessments	\$ 224,143	\$ 1,085,000
Power supply		
Billings	69,148,969	59,486,779
Supply charges	217,726	181,501
Total Operating Revenues	<u>69,590,838</u>	<u>60,753,280</u>
Operating Expenses		
Power supply		
Purchased power	66,715,010	59,261,805
Phone lines	4,933	4,933
Outside services		
Legal and consulting	177,224	102,435
Management services	48,897	46,068
Technical services	688,635	768,669
Insurance expense	10,390	10,490
Administrative and general		
Secretarial services	2,282	1,576
Accounting services	2,900	2,500
Supplies and other expenses	40,500	32,880
Amortization	33,990	33,990
Total Operating Expenses	<u>67,724,761</u>	<u>60,265,346</u>
Operating Income	<u>1,866,077</u>	<u>487,934</u>
Nonoperating Revenues (Expenses)		
Investment return	1,076	996
Interest expense	(7,807)	(6,016)
Total Nonoperating Revenues (Expenses)	<u>(6,731)</u>	<u>(5,020)</u>
Change in Net Assets	1,859,346	482,914
Prior Period Adjustment	-	(75,313)
Net Assets (Deficit) - January 1	<u>252,986</u>	<u>(154,615)</u>
Net Assets - December 31	<u>\$ 2,112,332</u>	<u>\$ 252,986</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES

Statement of Cash Flows

Year Ended December 31, 2011

With Comparative Information for the Year Ended December 31, 2010

	2011	2010
Cash Flows from Operating Activities		
Cash received from customers	\$ 67,453,931	\$ 59,865,645
Cash paid to suppliers	(66,311,423)	(59,163,341)
Net Cash Provided by Operating Activities	<u>1,142,508</u>	<u>702,304</u>
Cash Flows from Noncapital Financing Activities		
Rate stabilization deposits received (paid)	(81,137)	(437,437)
Interest paid on notes	(7,807)	(6,016)
MISO collateral deposit	(400,000)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(488,944)</u>	<u>(443,453)</u>
Cash Flows from Capital Financing Activities		
Acquisition of capital assets	-	(1,000,000)
Repayment of amount due to Manitowoc Utilities	(59,484)	(59,483)
Advance from members for hydroelectric plant purchase	-	1,000,000
Net Cash Provided (Used) by Capital Financing Activities	<u>(59,484)</u>	<u>(59,483)</u>
Cash Flows from Investing Activities		
Interest received	<u>1,076</u>	<u>996</u>
Net Change in Cash and Cash Equivalents	595,156	200,364
Cash and Cash Equivalents - January 1	<u>1,247,079</u>	<u>1,046,715</u>
Cash and Cash Equivalents - December 31	<u>\$ 1,842,235</u>	<u>\$ 1,247,079</u>
Reconciliation to Statement of Net Assets		
Cash and investments included in current assets	\$ 1,623,807	\$ 947,514
Restricted cash and investments	218,428	299,565
Total Cash and Cash Equivalents	<u>\$ 1,842,235</u>	<u>\$ 1,247,079</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 1,866,077	\$ 487,934
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization	33,990	33,990
Changes in assets and liabilities:		
Accounts receivable	(2,136,907)	(887,635)
Accounts payable	1,379,348	1,068,015
Net Cash Provided by Operating Activities	<u>\$ 1,142,508</u>	<u>\$ 702,304</u>

The accompanying notes are an integral part of these statements.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2011

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. Special assessments of \$123,200 were billed in 2011 to cover the preliminary costs associated with the wind power project feasibility study.

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 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.

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

<u>Assets</u>	Years
Equipment	6

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES

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, 2010, from which the summarized information was derived.

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 within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for time and savings deposits and \$250,000 for 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 per official custodian per depository institution. In addition, GLU's non-interest bearing transaction accounts are fully insured through December 31, 2012. 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, 2011, none 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 risk policy.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2011

NOTE C - RESTRICTED ASSETS

Restricted assets on December 31, 2011 totaled \$218,428 and consisted of cash and investments held for rate stabilization deposits.

NOTE D - MISO COLLATERAL DEPOSIT

As of December 31, 2011 GLU delivered \$1,320,799 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, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being amortized:				
Work in progress	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -
Capital assets, being amortized:				
Equipment	237,935	-	-	237,935
Less accumulated amortization	173,317	33,990	-	207,307
Total capital assets being amortized, net	64,618	(33,990)	-	30,628
Total capital assets	<u>\$ 1,064,618</u>	<u>\$ (33,990)</u>	<u>\$ 1,000,000</u>	30,628
Less related long-term obligations				<u>59,484</u>
Invested in capital assets net of related long-term obligations				<u>\$ (28,856)</u>

In 2010, GLU made a down payment of \$1,000,000 on a hydroelectric plant in Wisconsin Rapids that was owned by NewPage. In 2011, the plan to purchase the plant was terminated and the down payment will be returned to GLU in February 2012. The work in progress in the table above has been removed to reflect this event. The \$1,000,000 amount was reclassified from work in progress to an accounts receivable.

NOTE F - LINE OF CREDIT

GLU has established a line of credit with Investors Community Bank. As of December 31, 2011, GLU has drawn \$0 on this line of credit of \$1,000,000.

GREAT LAKES UTILITIES
Notes to Financial Statements
December 31, 2011

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, 2011 was \$900,000.

<u>Outstanding Notes Payable</u>	
Manitowoc Public Utilities	\$ 350,000
Badger Power Marketing Authority, Inc.	350,000
Wisconsin Rapids Light and Water Commission	<u>200,000</u>
	<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 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 and GLU's Attorney 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.

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, 2011, GLU has recorded a noncurrent liability to MPU of \$59,484 for capital equipment utilized by GLU and GLU has recorded a current liability to MPU of \$30,461 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 at \$38 per MWH for 20 years to in 2013.

**ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR FINANCIAL STATEMENTS**



**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 the financial statements of Great Lakes Utilities as of and for the year ended December 31, 2011, and have issued our report thereon dated March 1, 2012. 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.

Internal Control Over Financial Reporting

Management of Great Lakes Utilities is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Great Lakes Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of Great Lakes Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Great Lakes Utilities' internal control over financial reporting.

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 the financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Great Lakes Utilities' financial statements are free of 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 basic 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*.

We noted certain matters that we reported to management of Great Lakes Utilities in a separate letter dated March 1, 2012.



This report is intended solely for the information and use of the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Schnitz SC

Certified Public Accountants
Green Bay, Wisconsin
March 1, 2012