

**MANITOWOC PUBLIC UTILITIES
CITY OF MANITOWOC, WISCONSIN**

ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2006

MANITOWOC PUBLIC UTILITIES
CITY OF MANITOWOC, WISCONSIN
December 31, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Manitowoc Public Utilities
Manitowoc, Wisconsin

We have audited the accompanying basic financial statements of the Manitowoc Public Utilities of the City of Manitowoc, Wisconsin (MPU), as of and for the year ended December 31, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the MPU's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from the Utilities' 2005 financial statements and, in our report dated February 20, 2006, we expressed an unqualified opinion on those basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A1, the basic financial statements present only the Manitowoc Public Utilities of the City of Manitowoc, Wisconsin and are not intended to present fairly the financial position of the City of Manitowoc, Wisconsin, and the results of its operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the financial position of the MPU, as of December 31, 2006, 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 a report dated March 17, 2007 on our consideration of the MPU's internal control over financial reporting and our tests of its compliance with 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.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and we express no opinion on it.

Schmidt SC

Certified Public Accountants
Green Bay, Wisconsin
March 17, 2007

**MANITOWOC PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION & ANALYSIS**

Management's Discussion and Analysis December 31, 2006

The management of Manitowoc Public Utilities ("MPU") offers all parties interested in the financial position of MPU an objective, easy to read overview and analysis of MPU's financial performance during the year ending December 31, 2006. Please read this narrative in conjunction with MPU's financial statements.

Financial Highlights from 2006

Electric and Steam Utility:

- MPU finalized its work on construction of a new 63.3-megawatt boiler and turbine (Power Plant Expansion Project, aka Unit #9).
- An electric rate adjustment took effect on April 1, 2006. The overall impact was announced as an approximate 2% net increase in rates.
- Electric and Steam Utility net income has increased dramatically as compared to 2005. The recent series of rate adjustments along with wholesale sales of energy have started to provide MPU with this much needed increase in revenue.

Water Utility:

- The Water Utility net income decreased 45.7% as compared to 2005. Reduced sales volumes along with the impact of various non-reoccurring maintenance expenses are reasons for this dramatic decrease. MPU intends to file for a rate adjustment in 2007 with an effective date of early 2008.
- Work continued on facility additions needed to provide water to the six member communities of Central Brown County Water Authority. All necessary construction expenditures are being paid for by the CBCWA. These facilities are estimated to be complete in early 2007.

Broadband Utility:

Additional dark fiber lease agreements were executed with a number of entities.

Overview of the Financial Statements

The electric, steam, water, and broadband utilities are self-supporting entities and separate enterprise funds of the City of Manitowoc. These utilities provide services to properties within the City of Manitowoc as well as the billing and collection functions for the City of Manitowoc Waste Water Treatment Plant Fund.

Manitowoc Public Utilities is managed by the Manitowoc Public Utilities Commission and operates under service rules and rates that are established by the Public Service Commission of Wisconsin (PSCW). The accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW, and in accordance with the Governmental Accounting Standards Board.

The Statement of Net Assets (Table 1 and 2) and the Statement of Revenues, Expenses, and Changes in Net Assets (Table 3 and 4) provide an indication of MPU's change in financial condition during the last year. MPU'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 MPU for the year.

Utility Financial Analysis

Table 1
Condensed Statement of Net Assets – Electric and Steam Utility

	2006	2005	Dollar Change	Percent Change
Current Assets	\$ 13,007,353	\$ 8,628,899	\$ 4,378,454	50.7%
Restricted Assets	8,968,435	11,304,543	(2,336,108)	-20.7%
Net Utility Plant	134,480,265	131,698,770	2,781,495	2.1%
Other Assets	6,130,923	6,707,006	(576,083)	-8.6%
Total Assets	162,586,976	158,339,218	4,247,758	2.7%
Current Liabilities	10,501,981	9,906,104	595,877	6.0%
Revenue Bonds Payable	2,252,792	2,013,345	239,447	11.9%
Long-term Debt Outstanding	84,188,590	87,016,418	(2,827,828)	-3.2%
Total Liabilities	96,943,363	98,935,867	(1,992,504)	-2.0%
Invested in Net Utility Plant, Net of Related Debt	53,667,264	52,746,526	920,738	1.7%
Restricted for Debt Service	5,474,843	5,384,060	90,783	1.7%
Unrestricted Assets	6,501,506	1,272,765	5,228,741	410.8%
Total Net Assets	\$ 65,643,613	\$ 59,403,351	\$ 6,240,262	10.5%

Variance Explanations:

- Current assets show a little less than \$4,400,000 increase mainly due to the increase in cash generated by our increased net income.
- The restricted assets show a little over \$2,300,000 decrease because the proceeds of the debt issue were used for the power plant expansion project.
- Net utility plant shows an increase of just under \$2,800,000 because of the expenditures made on the power plant project as well as other plant improvements.
- The specifics on the change in utility net assets can be found on the utility net assets schedule in Table 5.
- Unrestricted net assets shows an increase of just over \$5,200,000 due to the net income for the year.

Table 2
Condensed Statements of Net Assets – Water Utility

	2006	2005	Dollar Change	Percent Change
Current Assets	\$ 5,446,683	\$ 5,671,275	\$ (224,592)	-4.0%
Restricted Assets	1,389,827	1,268,280	121,547	9.6%
Net Utility Plant	52,328,680	27,175,528	25,153,152	92.6%
Other Assets	747,809	419,337	328,472	78.3%
Total Assets	59,912,999	34,534,420	25,378,579	73.5%
Current Liabilities	1,752,442	1,798,492	(46,050)	-2.6%
Current Portion of Long-term Debt	620,692	585,000	35,692	6.1%
Long-term Debt Outstanding	5,376,241	6,001,714	(625,473)	-10.4%
Total Liabilities	7,749,375	8,385,206	(635,831)	-7.6%
Invested in Net Utility Plant, Net of Related Debt	46,653,680	20,915,529	25,738,151	123.1%
Restricted for Debt Service	1,502,017	1,237,110	264,907	21.4%
Unrestricted Assets	4,007,927	3,996,575	11,352	0.3%
Total Net Assets	\$ 52,163,624	\$ 26,149,214	\$ 26,014,410	99.5%

Variance Explanations:

- The specifics on changes in utility net assets can be found on the utility net asset schedule in Table 5.
- Imbedded within the net utility plant increase of just over \$25,100,000 is the \$25,300,000 of expenditures made in plant to serve the Central Brown County Water Authority (CBCWA). These expenditures were financed by the CBCWA which explains the capital contributions amount under the Water Utility condensed statement of revenues, expenses and changes in net assets.
- The above note is also why the net assets invested in capital assets net of related debt shows approximately the same increase.

Table 3
Condensed Statement of Revenues,
Expenses and Changes in Net Assets
Electric and Steam Utility

	2006	2005	Dollar Change	Percent Change
Operating Revenue	\$ 53,732,320	\$ 42,188,557	\$ 11,543,763	27.4%
Non-Operating Revenue	1,099,174	1,161,370	(62,196)	-5.4%
Total Revenues	54,831,494	43,349,927	11,481,567	26.5%
Depreciation Expense	5,107,469	3,063,042	2,044,427	66.7%
Other Operating Expenses	40,260,167	36,500,706	3,759,461	10.3%
Non-Operating Expenses	4,413,702	4,142,028	271,674	6.6%
Total Expenses	49,781,338	43,705,776	6,075,562	13.9%
Income before Capital Contributions	5,050,156	(355,849)	5,406,005	-1519.2%
Capital Contributions	1,190,106	445,062	745,044	167.4%
Changes in Net Assets	6,240,262	89,213	6,151,049	6894.8%
Beginning Net Assets	59,403,351	59,314,138	89,213	0.2%
Total Net Assets - Ending	\$ 65,643,613	\$ 59,403,351	\$ 6,240,262	10.5%

Variance Explanations:

- Operating revenues show an increase of over \$11,500,000. Almost \$4,700,000 of this is attributable to revenues generated from wholesale sales and the remaining \$6,800,000 is attributable to rate increases that took effect in July, 2005 and April, 2006.
- The over \$2,000,000 increase in depreciation expense is related to the new power plant expansion assets.
- The over \$3,700,000 increase in other operating expenses is attributable to the following: \$1,900,000 net increase in fuel. These costs obviously increased to coincide with our increased volume sales but our fuel cost for mwh generated decreased by more than \$3.00 per mwh; \$600,000 increase in power production costs that relate mainly to major maintenance on turbine 5; \$400,000 increase in payment in lieu of taxes to the City of Manitowoc; and \$800,000 increase in wages and benefits.

Table 4
Condensed Statement of Revenues,
Expenses and Changes in Net Assets
Water Utility

	2006	2005	Dollar Change	Percent Change
Operating Revenue	\$ 4,573,560	\$ 4,938,597	\$ (365,037)	-7.4%
Non-Operating Revenue	290,605	211,980	78,625	37.1%
Total Revenues	4,864,165	5,150,577	(286,412)	-5.6%
Depreciation Expense	595,006	599,858	(4,852)	-0.8%
Other Operating Expenses	3,498,448	3,212,035	286,413	8.9%
Non-Operating Expenses	376,580	362,372	14,208	3.9%
Total Expenses	4,470,034	4,174,265	295,769	7.1%
Income before Capital Contributions	394,131	976,312	(582,181)	-59.6%
Capital Contributions	25,620,279	289,321	25,330,958	8755.3%
Changes in Net Assets	26,014,410	1,265,633	24,748,777	1955.4%
Beginning Net Assets	26,149,214	24,883,581	1,265,633	5.1%
Total Net Assets - Ending	\$ 52,163,624	\$ 26,149,214	\$ 26,014,410	99.5%

Variance Explanations:

- The major reason for the decrease of approximately \$400,000 in operating revenues is due to a decrease in volume sold.
- The large increase in capital contributions was explained in the variance explanations of the condensed statement of net assets – Water Utility.
- The major reason for the increase in other operating expenses occurred because of some sizeable non-reoccurring maintenance expenses on production plant and equipment.

Net Utility Plant Activity

Table 5
Net Utility Plant – Electric and Water Utility

	2006	2005	Dollar Change	Percent Change
Net Utility Plant - Water				
Source of supply	\$ 2,489,626	\$ 2,489,626	\$ -	0.0%
Pumping	2,272,033	2,272,033	-	0.0%
Water treatment	8,653,791	8,653,791	-	0.0%
Transmission and distribution	21,429,557	20,970,391	459,166	2.2%
General plant	725,091	922,896	(197,805)	-21.4%
Less: Accumulated depreciation	(8,635,957)	(8,230,540)	(405,417)	4.9%
Construction in progress	25,394,539	142,811	25,251,728	17681.9%
	<u>\$ 52,328,680</u>	<u>\$ 27,221,008</u>	<u>\$ 25,107,672</u>	92.2%
Utility Plant - Electric				
Steam production plant	\$ 146,937,431	\$ 63,852,938	\$ 83,084,493	130.1%
Distribution	29,777,752	28,557,513	1,220,239	4.3%
General plant	4,559,725	4,649,763	(90,038)	-1.9%
Less: Accumulated depreciation	(47,214,007)	(44,025,184)	(3,188,823)	7.2%
Construction in progress	419,364	78,663,739	(78,244,375)	-99.5%
	<u>\$ 134,480,265</u>	<u>\$ 131,698,769</u>	<u>\$ 2,781,496</u>	2.1%

Variance Explanations:

- The most significant activity to explain is the almost \$25,300,000 increase in construction work in progress for the Water Utility. This is almost totally due to the expenditures made on the CBCWA project.
- Another significant activity is the \$83,000,000 increase in power production plant in the Electric and Steam Utility. This increase is also the reason for the approximately \$78,200,000 decrease in construction work in progress for this utility. Our expansion project moved out of construction work in progress into plant accounts.

Long-Term Debt Activity

The Electric and Steam Utility has outstanding Senior Lien, Mortgage Revenue Bonds at the end of 2006 of \$6,950,000. In addition, the utility has \$74,265,000 of Junior Lien Bonds issued in 2004 for the Power Plant Expansion Project. The bonds are payable from the revenues derived from the operation of the Electric and Steam Utility to be set aside and pledged into the Bond Redemption Fund. The Water Utility has outstanding Mortgage Revenue Bonds at the end of 2006 of \$5,675,000.

Economic Factors

In April, 2006, the Public Service Commission of Wisconsin authorized an approximate 2% increase in electric rates.

The present construction of the facilities for providing water to the CBCWA communities will have a very positive economic impact on water rates for many years into the future. This construction is expected to be completed in early 2007.

MPU has in place as of October, 2006 a long-term contract for the sales of capacity and energy to Great Lakes Utilities.

MPU attempts to minimize risk where economically practical throughout its operations. MPU's policy is to manage power supply costs in order to achieve a low risk profile. MPU has no power supply cost risk due to the PCAC rate mechanism. MPU manages power supply costs for its customers as follows:

- MPU makes short-term, non-firm purchases and sales when economic to do so.
- MPU does not engage in speculative trading activity.
- MPU contracts in advance for fuel supply and ash disposal. The contracts presently in place are as follows:

A limestone supply contract through 2012

A petroleum coke supply contract through 2010

A coal supply contract through 2008

An ash disposal contract through 2007

MPU does not buy natural gas or paper pellets on a forward basis due to low use of these funds.

- The electric expansion project completed in 2006 provided available excess capacity. MPU therefore entered into a long-term contract for the sale of capacity and energy. This, along with the MISO market, will provide MPU with substantial wholesale revenues for a number of years to come. These wholesale revenues are being credited back to the retail customers via credits to the PCAC rate mechanism.
- In order to have generating units available for economic dispatch, MPU attempts to keep the forced outage rate to a minimum and to manage maintenance outage times. In 2006, Boiler 9 was forced down multiple times early in the year due to fuel and cyclone plugging problems. Modifications and changes to the process have improved this forced outage rate dramatically.

Contacting Financial Management

This financial report is designed to provide our customers, 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 Manager of Business Services, Manitowoc Public Utilities, P.O. Box 1090, Manitowoc, WI 54221.

General information relating to Manitowoc Public Utilities can be found at www.mpu.org.

MANITOWOC PUBLIC UTILITIES
2006 FINANCIAL STATEMENTS
WITH COMPARATIVE TOTALS FOR 2005

MANITOWOC PUBLIC UTILITIES
CITY OF MANITOWOC, WISCONSIN
Statement of Net Assets
December 31, 2006
With Comparative Totals as of December 31, 2005

ASSETS	2006	2005
Utility Plant		
Electric	\$ 164,534,807	\$ 168,861,666
Water	60,964,637	35,243,233
Steam	16,031,236	5,825,004
Broadband	1,128,229	1,068,935
Total	<u>242,658,909</u>	<u>210,998,838</u>
Less: Accumulated depreciation	<u>(55,849,964)</u>	<u>(52,124,540)</u>
Net Utility Plant	<u>186,808,945</u>	<u>158,874,298</u>
Current Assets		
Cash and investments	10,548,775	4,790,601
Accounts receivable and other current assets	7,905,261	9,509,573
Total Current Assets	<u>18,454,036</u>	<u>14,300,174</u>
Restricted Assets		
Cash and investments	10,234,103	12,406,130
Accrued interest	124,159	166,693
Total Restricted Assets	<u>10,358,262</u>	<u>12,572,823</u>
Other Assets	<u>6,878,732</u>	<u>7,126,343</u>
TOTAL ASSETS	<u><u>222,499,975</u></u>	<u><u>192,873,638</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable and other liabilities	11,491,425	11,803,803
Accrued expenses	4,417,470	4,130,303
Total Current Liabilities	<u>15,908,895</u>	<u>15,934,106</u>
Long-term Obligations		
Due within one year		
Due to City of Manitowoc	33,484	28,126
Revenue bonds payable	2,840,000	2,575,000
Due in more than one year		
Due to City of Manitowoc	1,860,359	1,893,841
Revenue bonds payable	84,050,000	86,890,000
Total Noncurrent Liabilities	<u>88,783,843</u>	<u>91,386,967</u>
TOTAL LIABILITIES	<u><u>104,692,738</u></u>	<u><u>107,321,073</u></u>
NET ASSETS		
Invested in utility plant, net of related debt	100,320,945	73,662,055
Restricted for debt service	6,835,415	6,621,170
Restricted for plant replacement	141,445	-
Unrestricted	<u>10,509,432</u>	<u>5,269,340</u>
TOTAL NET ASSETS	<u><u>\$ 117,807,237</u></u>	<u><u>\$ 85,552,565</u></u>

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

MANITOWOC PUBLIC UTILITIES
CITY OF MANITOWOC, WISCONSIN
Statement of Activities
Year Ended December 31, 2006
With Comparative Totals for Year Ended December 31, 2005

	2006	2005
Operating Revenues		
Electric	\$ 50,077,686	\$ 39,118,471
Water	4,573,560	4,938,596
Steam	3,501,244	2,689,657
Broadband	153,390	163,689
Total Operating Revenues	<u>58,305,880</u>	<u>46,910,413</u>
Operating Expenses		
Source of supply	542,490	492,236
Power production	22,136,874	18,662,839
Purchased power	9,625,812	10,652,865
Transmission and distribution	2,753,837	2,219,708
Administrative and general	4,494,252	4,272,784
Depreciation	5,702,475	3,667,564
Taxes	299,485	289,440
Total Operating Expenses	<u>45,555,225</u>	<u>40,257,436</u>
Operating Income	<u>12,750,655</u>	<u>6,652,977</u>
Nonoperating Revenues (Expenses)		
Interest revenue	1,365,388	1,378,737
Interest and fiscal charges	(4,710,423)	(4,717,449)
Miscellaneous	(55,468)	(68,873)
Total Nonoperating Revenues (Expenses)	<u>(3,400,503)</u>	<u>(3,407,585)</u>
Net Income Before Contributions and Transfers	9,350,152	3,245,392
Customer contributions	26,066,089	843,625
Transfers in	744,296	-
Transfers out	<u>(3,905,865)</u>	<u>(2,734,171)</u>
Change in Net Assets	32,254,672	1,354,846
Net Assets - January 1	<u>85,552,565</u>	<u>84,197,719</u>
Net Assets - December 31	<u>\$ 117,807,237</u>	<u>\$ 85,552,565</u>

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

MANITOWOC PUBLIC UTILITIES
CITY OF MANITOWOC, WISCONSIN
Statement of Cash Flows
Year Ended December 31, 2006
With Comparative Totals for Year Ended December 31, 2005

	2006	2005
Cash Flows from Operating Activities		
Cash received from customers	\$ 58,900,223	\$ 45,687,285
Cash paid to suppliers	(32,330,219)	(28,244,031)
Cash paid to employees	(5,723,970)	(4,991,379)
Net Cash Provided by Operating Activities	<u>20,846,034</u>	<u>12,451,875</u>
Cash Flows from Noncapital Financing Activities		
Cash transferred to other funds	<u>(3,161,569)</u>	<u>(2,734,171)</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(33,805,128)	(34,972,142)
Principal paid on debt	(2,603,126)	(4,289,665)
Interest and fiscal charges	(4,591,550)	(4,749,880)
Proceeds of revenue bonds	-	4,715,000
Premium on debt issued	-	(103,474)
Capital contributions	26,066,089	843,625
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(14,933,715)</u>	<u>(38,556,536)</u>
Cash Flows from Investing Activities		
Interest received on investments	1,407,922	1,413,189
Cash paid to ATC LLC	(572,525)	(203,668)
Net Cash Provided by Investing Activities	<u>835,397</u>	<u>1,209,521</u>
Increase (Decrease) in Cash and Cash Equivalents	3,586,147	(27,629,311)
Cash and Cash Equivalents - January 1	<u>17,196,731</u>	<u>44,826,042</u>
Cash and Cash Equivalents - December 31	<u>\$ 20,782,878</u>	<u>\$ 17,196,731</u>
Reconciliation of cash and cash equivalents to the combined balance sheet:		
Cash and investments in current assets	\$ 10,548,775	\$ 4,790,601
Restricted cash and investments	10,234,103	12,406,130
Total Cash and Cash Equivalents	<u>\$ 20,782,878</u>	<u>\$ 17,196,731</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 12,750,655	\$ 6,652,977
Adjustments to reconcile operating income to net cash provided by operations		
Depreciation	6,109,460	4,049,707
Miscellaneous	(187,161)	(200,566)
Changes in assets and liabilities		
Accounts receivable and other current assets	1,872,597	(788,292)
Accounts payable and other accrued liabilities	545,584	1,974,544
Accrued expenses	(245,101)	763,505
Net Cash Provided by Operating Activities	<u>\$ 20,846,034</u>	<u>\$ 12,451,875</u>

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

