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UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0043
	PERIOD ENDED December, 2010 (Prepared with Audited Data)
	BORROWER NAME Cloverland Electric Co-operative
INSTRUCTIONS - See help in the online application.	

This information is analyzed and used to determine the submitter's financial situation and feasibility for loans and guarantees. You are required by contract and applicable regulations to provide the information. The information provided is subject to the Freedom of Information Act (5 U.S.C. 552)

CERTIFICATION

We recognize that statements contained herein concern a matter within the jurisdiction of an agency of the United States and the making of a false, fictitious or fraudulent statement may render the maker subject to prosecution under Title 18, United States Code Section 1001.

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1718 OF 7 CFR CHAPTER XVII

(check one of the following)

All of the obligations under the RUS loan documents have been fulfilled in all material respects.

There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in Part D of this report.

Daniel Dasho

5/29/2011

DATE

PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE			THIS MONTH (d)
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
1. Operating Revenue and Patronage Capital	22,149,857	58,516,542	22,950,000	7,456,409
2. Power Production Expense	1,208,901	2,099,593	1,000,000	426,318
3. Cost of Purchased Power	11,401,234	32,037,314	12,179,398	4,329,262
4. Transmission Expense	491	4,102,588	500	528,457
5. Regional Market Expense				
6. Distribution Expense - Operation	967,298	1,872,080	883,877	425,079
7. Distribution Expense - Maintenance	1,715,781	3,223,263	1,619,361	92,390
8. Customer Accounts Expense	687,771	1,718,100	623,155	314,325
9. Customer Service and Informational Expense	36,812	408,974	20,259	57,364
10. Sales Expense	84,646	155,650	79,270	11,506
11. Administrative and General Expense	1,662,385	3,298,800	1,668,437	(45,163)
12. Total Operation & Maintenance Expense (2 thru 11)	17,765,319	48,916,362	18,074,257	6,139,538
13. Depreciation and Amortization Expense	1,891,597	4,066,978	1,945,000	425,589
14. Tax Expense - Property & Gross Receipts	684,786	1,794,660	696,000	173,810
15. Tax Expense - Other	46,112	101,957	66,000	13,095
16. Interest on Long-Term Debt	1,900,194	1,866,364	1,944,000	190,415
17. Interest Charged to Construction - Credit	0	0	0	0
18. Interest Expense - Other	6,067	680,337	6,000	244,580
19. Other Deductions	108	(4,822)	12,000	(4,353)
20. Total Cost of Electric Service (12 thru 19)	22,294,183	57,421,836	22,743,257	7,182,674
21. Patronage Capital & Operating Margins (1 minus 20)	(144,326)	1,094,706	206,743	273,735
22. Non Operating Margins - Interest	167,709	87,423	150,000	4,032
23. Allowance for Funds Used During Construction				
24. Income (Loss) from Equity Investments	49,223	(38,838)	20,000	(25,303)
25. Non Operating Margins - Other	843,289	867,798	850,000	71,605
26. Generation and Transmission Capital Credits				
27. Other Capital Credits and Patronage Dividends	131,400	552,015	105,000	499,530
28. Extraordinary Items			0	
29. Patronage Capital or Margins (21 thru 28)	1,047,295	2,563,104	1,331,743	823,599

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

**FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION**

BORROWER DESIGNATION

MI0043

PERIOD ENDED

December, 2010

INSTRUCTIONS - See help in the online application.

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	125	23,537	5. Miles Transmission	0.00	0.00
2. Services Retired	54	28	6. Miles Distribution – Overhead	2,143.83	2,144.37
3. Total Services in Place	19,924	43,489	7. Miles Distribution - Underground	438.49	443.69
4. Idle Services (Exclude Seasonals)	457	1,041	8. Total Miles Energized (5 + 6 + 7)	2,582.32	2,588.06

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	124,876,123	30. Memberships	83,400
2. Construction Work in Progress	2,569,085	31. Patronage Capital	18,172,647
3. Total Utility Plant (1 + 2)	127,445,208	32. Operating Margins - Prior Years	506,734
4. Accum. Provision for Depreciation and Amort.	29,792,507	33. Operating Margins - Current Year	1,646,721
5. Net Utility Plant (3 - 4)	97,652,701	34. Non-Operating Margins	1,778,002
6. Non-Utility Property (Net)	51,472	35. Other Margins and Equities	(248,589)
7. Investments in Subsidiary Companies	671,856	36. Total Margins & Equities (30 thru 35)	21,938,915
8. Invest. in Assoc. Org. - Patronage Capital	513,529	37. Long-Term Debt - RUS (Net)	27,695,761
9. Invest. in Assoc. Org. - Other - General Funds	0	38. Long-Term Debt - FFB - RUS Guaranteed	0
10. Invest. in Assoc. Org. - Other - Nongeneral Funds	8,475,918	39. Long-Term Debt - Other - RUS Guaranteed	0
11. Investments in Economic Development Projects	0	40. Long-Term Debt Other (Net)	71,581,990
12. Other Investments	0	41. Long-Term Debt - RUS - Econ. Devel. (Net)	0
13. Special Funds	28,944	42. Payments – Unapplied	0
14. Total Other Property & Investments (6 thru 13)	9,741,719	43. Total Long-Term Debt (37 thru 41 - 42)	99,277,751
15. Cash - General Funds	1,498,608	44. Obligations Under Capital Leases - Noncurrent	0
16. Cash - Construction Funds - Trustee	21,515	45. Accumulated Operating Provisions and Asset Retirement Obligations	1,366,672
17. Special Deposits	0	46. Total Other Noncurrent Liabilities (44 + 45)	1,366,672
18. Temporary Investments	87,888	47. Notes Payable	750,000
19. Notes Receivable (Net)	0	48. Accounts Payable	6,319,885
20. Accounts Receivable - Sales of Energy (Net)	9,173,902	49. Consumers Deposits	177,893
21. Accounts Receivable - Other (Net)	776,660	50. Current Maturities Long-Term Debt	1,395,500
22. Renewable Energy Credits	0	51. Current Maturities Long-Term Debt - Economic Development	0
23. Materials and Supplies - Electric & Other	2,947,144	52. Current Maturities Capital Leases	0
24. Prepayments	65,430	53. Other Current and Accrued Liabilities	3,172,817
25. Other Current and Accrued Assets	1,951,451	54. Total Current & Accrued Liabilities (47 thru 53)	11,816,095
26. Total Current and Accrued Assets (15 thru 25)	16,522,598	55. Regulatory Liabilities	0
27. Regulatory Assets	10,876,431	56. Other Deferred Credits	1,422,832
28. Other Deferred Debits	1,028,816	57. Total Liabilities and Other Credits (36 + 43 + 46 + 54 thru 56)	135,822,265
29. Total Assets and Other Debits (5+14+26 thru 28)	135,822,265		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0043
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December, 2010

PART D. NOTES TO FINANCIAL STATEMENTS

On May 5, 2010, Cloverland Electric Cooperative, Inc. purchased Edison Sault Electric Comapny, LLC from Wisconsin Energy. The Cooperative instantly grew from 19,000 members to over 42,000 members. Annual sales for 2010 went from \$22 million to nearly \$60 million.

During 2010 the cooperative operated within two accounting software programs and two billing programs. The billing data was integrated in September. The accounting and payroll systems are consolidated as of January 1, 2011. Consolidating this data was a long and difficult process.

The data in this report are for four months of legacy Cloverland Electric and eight months of the consolidated cooperative. Notes for each section are as follows:

Part A, column (c) - The budget data is for legacy Cloverland alone. The 2011 budget has been approved by the Board of Directors and is for the consolidated cooperative.

Part B - The new members are included in line 1. Miles of distribution as reported are for legacy Cloverland only. The miles of line of the acquired company are unknown.

Part C - Cloverland purchased the assets of Edison Sault Electric. Their balance sheet as of May 4 is consolidated with the Cooperative's.

Part E - Columns (a) and (e) are substantially different. The assets of the acquired company are included in column (b).

Part G - The present year and 5 year average service interruptions of Edison Sault Electric Company are added to the legacy Cloverland outages. Column (c) and (d) for the Edison Sault are unknown.

Part K - Cloverland previously purchased power from Edison Sault Electric and Newberry Water and Light Board. This section has expanded to include the sources of energy for former Edison Sault, now Cloverland Electric.

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0043
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December, 2010

PART D. NOTES TO FINANCIAL STATEMENTS

Part N - Line 3 is short term debt of \$64,000,000 to CoBank for the purchase of Edison Sault Electric. This will be replaced with long term FFB debt.

Part O - Column (b) Average number of customers served: The cooperative consolidated on May 4; an average of the entire year would be skewed due to the first four months including only legacy Cloverland. An average of the consolidated company for eight months is a more accurate and is calculated as such here.

<p style="text-align: center;">UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION</p>	<p>BORROWER DESIGNATION MI0043</p>
<p>INSTRUCTIONS - See help in the online application.</p>	<p>PERIOD ENDED December, 2010</p>
<p>PART D. CERTIFICATION LOAN DEFAULT NOTES</p>	

**FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION**

BORROWER DESIGNATION MI0043

PERIOD ENDED December, 2010

INSTRUCTIONS - See help in the online application.

PART E. CHANGES IN UTILITY PLANT

PLANT ITEM	BALANCE BEGINNING OF YEAR (a)	ADDITIONS (b)	RETIREMENTS (c)	ADJUSTMENTS AND TRANSFERS (d)	BALANCE END OF YEAR (e)
1. Distribution Plant	59,989,984	36,007,375	374,149	(224,995)	95,398,215
2. General Plant	4,638,602	5,327,219	276,460		9,689,361
3. Headquarters Plant	1,843,780	723,229			2,567,009
4. Intangibles	252	6,238,401			6,238,653
5. Transmission Plant	755,476				755,476
6. Regional Transmission and Market Operation Plant					
7. All Other Utility Plant	3,496,990	6,730,419			10,227,409
8. Total Utility Plant in Service (1 thru 7)	70,725,084	55,026,643	650,609	(224,995)	124,876,123
9. Construction Work in Progress	2,023,366	545,719			2,569,085
10. Total Utility Plant (8 + 9)	72,748,450	55,572,362	650,609	(224,995)	127,445,208

PART F. MATERIALS AND SUPPLIES

ITEM	BALANCE BEGINNING OF YEAR (a)	PURCHASED (b)	SALVAGED (c)	USED (NET) (d)	SOLD (e)	ADJUSTMENT (f)	BALANCE END OF YEAR (g)
1. Electric	1,212,807	3,762,621	14,055	2,050,987			2,938,496
2. Other	8,712	815	0	880			8,647

PART G. SERVICE INTERRUPTIONS

ITEM	AVERAGE MINUTES PER CONSUMER BY CAUSE				TOTAL (e)
	POWER SUPPLIER (a)	MAJOR EVENT (b)	PLANNED (c)	ALL OTHER (d)	
1. Present Year	86.300	1,062.600	5.000	272.400	1,426.300
2. Five-Year Average	58.800	368.600	6.400	281.100	714.900

PART H. EMPLOYEE-HOUR AND PAYROLL STATISTICS

1. Number of Full Time Employees	106	4. Payroll - Expensed	4,541,088
2. Employee - Hours Worked - Regular Time	181,371	5. Payroll - Capitalized	1,710,487
3. Employee - Hours Worked - Overtime	13,887	6. Payroll - Other	523,826

PART I. PATRONAGE CAPITAL

ITEM	DESCRIPTION	THIS YEAR (a)	CUMULATIVE (b)
1. Capital Credits - Distributions	a. General Retirements	969,625	11,624,534
	b. Special Retirements	30,375	592,824
	c. Total Retirements (a + b)	1,000,000	12,217,358
2. Capital Credits - Received	a. Cash Received From Retirement of Patronage Capital by Suppliers of Electric Power		
	b. Cash Received From Retirement of Patronage Capital by Lenders for Credit Extended to the Electric System	15,066	
	c. Total Cash Received (a + b)	15,066	

PART J. DUE FROM CONSUMERS FOR ELECTRIC SERVICE

1. Amount Due Over 60 Days	\$ 533,211	2. Amount Written Off During Year	\$ 151,555
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UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0043
INSTRUCTIONS - See help in the online application	PERIOD ENDED December, 2010

PART K. kWh PURCHASED AND TOTAL COST

No	ITEM	RUS USE ONLY SUPPLIER CODE	RENEWABLE ENERGY PROGRAM NAME	RENEWABLE FUEL TYPE	kWh PURCHASED	TOTAL COST	AVERAGE COST (Cents/kWh)	INCLUDED IN TOTAL COST - FUEL COST ADJUSTMENT (h)	INCLUDED IN TOTAL COST - WHEELING AND OTHER CHARGES (i)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)		
1	Edison Sault Electric Company	5659			78,225,075	4,688,278	5.99		
2	Newberry Water & Light Board	13525			276,880	66,451	24.00		
3	Wisconsin Electric Power Co	20847			408,022,412	26,048,619	6.38		
4	U S Corps of Engineers	800285			106,135,241	1,233,965	1.16		
	Total				592,659,608	32,037,313	5.41		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0043
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INSTRUCTIONS - See help in the online application	PERIOD ENDED December, 2010
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PART K. kWh PURCHASED AND TOTAL COST

No	Comments
1	
2	
3	
4	

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		BORROWER DESIGNATION MI0043	
INSTRUCTIONS - See help in the online application.		PERIOD ENDED December, 2010	
PART L. LONG-TERM LEASES			
No	NAME OF LESSOR (a)	TYPE OF PROPERTY (b)	RENTAL THIS YEAR (c)
	TOTAL		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		BORROWER DESIGNATION MI0043	
INSTRUCTIONS - See help in the online application.		PERIOD ENDED December, 2010	
PART M. ANNUAL MEETING AND BOARD DATA			
1. Date of Last Annual Meeting 4/21/2010	2. Total Number of Members 18,937	3. Number of Members Present at Meeting 202	4. Was Quorum Present? Y
5. Number of Members Voting by Proxy or Mail 0	6. Total Number of Board Members 9	7. Total Amount of Fees and Expenses for Board Members \$ 190,470	8. Does Manager Have Written Contract? Y

RUS Financial and Operating Report Electric Distribution

Revision Date 2010

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0043
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December, 2010

PART N. LONG-TERM DEBT AND DEBT SERVICE REQUIREMENTS

No	ITEM	BALANCE END OF YEAR (a)	INTEREST (Billed This Year) (b)	PRINCIPAL (Billed This Year) (c)	TOTAL (Billed This Year) (d)
1	Rural Utilities Service (Excludes RUS - Economic Development Loans)	27,695,761	1,339,563	636,741	1,976,304
2	National Rural Utilities Cooperative Finance Corporation	7,581,990	526,800	785,814	1,312,614
3	CoBank, ACB	64,000,000	650,314	0	650,314
4	Federal Financing Bank				
5	RUS - Economic Development Loans				
6	Payments Unapplied				
	TOTAL	99,277,751	2,516,677	1,422,555	3,939,232

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0043
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December, 2010

PART O. POWER REQUIREMENTS DATABASE - ANNUAL SUMMARY

CLASSIFICATION	CONSUMER SALES & REVENUE DATA	DECEMBER (a)	AVERAGE NO. CONSUMERS SERVED (b)	TOTAL YEAR TO DATE (c)
1. Residential Sales (excluding seasonal)	a. No. Consumers Served	29,179	29,125	
	b. kWh Sold			195,264,020
	c. Revenue			20,480,656
2. Residential Sales - Seasonal	a. No. Consumers Served	7,105	7,204	
	b. kWh Sold			21,608,770
	c. Revenue			2,770,717
3. Irrigation Sales	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
4. Comm. and Ind. 1000 KVA or Less	a. No. Consumers Served	5,393	5,402	
	b. kWh Sold			108,277,669
	c. Revenue			11,737,596
5. Comm. and Ind. Over 1000 KVA	a. No. Consumers Served	106	106	
	b. kWh Sold			256,496,146
	c. Revenue			20,451,276
6. Public Street & Highway Lighting	a. No. Consumers Served	81	81	
	b. kWh Sold			1,136,474
	c. Revenue			382,427
7. Other Sales to Public Authorities	a. No. Consumers Served	262	262	
	b. kWh Sold			12,425,525
	c. Revenue			1,068,641
8. Sales for Resale - RUS Borrowers	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
9. Sales for Resale - Other	a. No. Consumers Served	1	1	
	b. kWh Sold			19,600,880
	c. Revenue			1,106,471
10. Total No. of Consumers (lines 1a thru 9a)		42,127	42,181	
11. Total kWh Sold (lines 1b thru 9b)				614,809,484
12. Total Revenue Received From Sales of Electric Energy (lines 1c thru 9c)				57,997,784
13. Transmission Revenue				
14. Other Electric Revenue				518,758
15. kWh - Own Use				1,263,762
16. Total kWh Purchased				592,659,608
17. Total kWh Generated				73,868,766
18. Cost of Purchases and Generation				38,239,495
19. Interchange - kWh - Net				
20. Peak - Sum All kW Input (Metered) Non-coincident <input checked="" type="checkbox"/> Coincident <input type="checkbox"/>				139,807

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

**FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION**

BORROWER DESIGNATION MI0043

PERIOD ENDED December, 2010

INSTRUCTIONS - See help in the online application.

PART P. ENERGY EFFICIENCY PROGRAMS

CLASSIFICATION	ADDED THIS YEAR			TOTAL TO DATE		
	No. of Consumers (a)	Amount Invested (b)	Estimated MMBTU Savings (c)	No. of Consumers (d)	Amount Invested (e)	Estimated MMBTU Savings (f)
1. Residential Sales (excluding seasonal)						
2. Residential Sales - Seasonal						
3. Irrigation Sales						
4. Comm. and Ind. 1000 KVA or Less						
5. Comm. and Ind. Over 1000 KVA						
6. Public Street and Highway Lighting						
7. Other Sales to Public Authorities						
8. Sales for Resale – RUS Borrowers						
9. Sales for Resale – Other						
10. Total						

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS	BORROWER DESIGNATION MI0043 PERIOD ENDED December, 2010
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INSTRUCTIONS - Reporting of investments is required by 7 CFR 1717, Subpart N. Investment categories reported on this Part correspond to Balance Sheet items in Part C. Identify all investments in Rural Development with an 'X' in column (e). Both 'Included' and 'Excluded' Investments must be reported. See help in the online application.

PART Q. SECTION I. INVESTMENTS (See Instructions for definitions of Income or Loss)

No	DESCRIPTION (a)	INCLUDED (\$) (b)	EXCLUDED (\$) (c)	INCOME OR LOSS (\$) (d)	RURAL DEVELOPMENT (e)
1	Non-Utility Property (NET)				
	ESE Acquisition		51,472		
	Totals		51,472		
2	Investments in Associated Organizations				
	NRUCFC		251,000		
	NISC	68,935			
	NRTC	823			X
	CRC	17,486			
	RESCO	175,286			
	Federated	194,908			X
	NRUCFC CTCs		869,374		
	ATC	6,920,652			
	Lighthouse Computers Inc	671,857			X
	MECA	30,077			X
	NRUCFC		1,000		
	CoBank		459,906		
	Totals	8,080,024	1,581,280		
5	Special Funds				
	Special Funds	28,944			
	Totals	28,944			
6	Cash - General				
	Old Mission Bank	657,859	100,000		
	CSB	534,624	100,000		
	Working Fund Petty Cash	3,440			
	FNB		29,352		
	M Bank		39,124		
	State Savings Bank		32,864		
	Soo Co-op Credit Union		1,344		
	Totals	1,195,923	302,684		
8	Temporary Investments				
	ED Jones		3,681		
	Credit Union Memberships	10			
	Restricted funds - PSCR	84,197			
	Totals	84,207	3,681		
9	Accounts and Notes Receivable - NET				
	AR Other	776,660			
	Totals	776,660			
11	TOTAL INVESTMENTS (1 thru 10)	10,165,758	1,939,117		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS	BORROWER DESIGNATION MI0043 PERIOD ENDED December, 2010
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INSTRUCTIONS - Reporting of investments is required by 7 CFR 1717, Subpart N. Investment categories reported on this Part correspond to Balance Sheet items in Part C. Identify all investments in Rural Development with an 'X' in column (e). Both 'Included' and 'Excluded' Investments must be reported. See help in the online application.

PART Q. SECTION II. LOAN GUARANTEES

No	ORGANIZATION (a)	MATURITY DATE (b)	ORIGINAL AMOUNT (\$) (c)	LOAN BALANCE (\$) (d)	RURAL DEVELOPMENT (e)
	TOTAL				
	TOTAL (Included Loan Guarantees Only)				

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS	BORROWER DESIGNATION MI0043
	PERIOD ENDED December, 2010

INSTRUCTIONS - Reporting of investments is required by 7 CFR 1717, Subpart N. Investment categories reported on this Part correspond to Balance Sheet items in Part C. Identify all investments in Rural Development with an 'X' in column (e). Both 'Included' and 'Excluded' Investments must be reported. See help in the online application.

SECTION III. RATIO

RATIO OF INVESTMENTS AND LOAN GUARANTEES TO UTILITY PLANT [Total of Included Investments (Section I, 11b) and Loan Guarantees - Loan Balance (Section II, 5d) to Total Utility Plant (Line 3, Part C) of this report]	7.98 %
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SECTION IV. LOANS

No	ORGANIZATION (a)	MATURITY DATE (b)	ORIGINAL AMOUNT (\$) (c)	LOAN BALANCE (\$) (d)	RURAL DEVELOPMENT (e)
1	Employees, Officers, Directors				
2	Energy Resources Conservation Loans				
	TOTAL				

**MICHIGAN 43 CHIPPEWA
CLOVERLAND ELECTRIC COOPERATIVE, INC.
REPORT ON CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

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**CLOVERLAND ELECTRIC COOPERATIVE, INC.
BOARD OF DIRECTORS
DECEMBER 31, 2010**

Robert Schallip	President
Rodney Richards	Vice President
Richard Newland	Secretary/Treasurer
Carl R. Eagle	Director
Tamara Gady	Director
Peter Legault	Director
Gerald Nettleton	Director
Dale Carlson	Director
Frank Talentino	Director

General Manager

Daniel Dasho



Independent Auditor's Report

The Board of Directors
Cloverland Electric Cooperative, Inc.
Dafter, Michigan

We have audited the accompanying consolidated balance sheets of Cloverland Electric Cooperative, Inc. and subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of revenue, equities, and cash flows for the years then ended. These financial statements are the responsibility of Cloverland Electric Cooperative, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cloverland Electric Cooperative, Inc. and subsidiary as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years 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 May 16, 2011, on our consideration of Cloverland Electric Cooperative, Inc.'s 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.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Cloverland Electric Cooperative. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

May 16, 2011

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

ASSETS	2010	2009
ELECTRIC PLANT AND EQUIPMENT:		
In service – at cost	\$ 126,115,939	\$ 71,900,477
Construction work in progress	2,571,897	2,068,530
SUBTOTAL	128,687,836	73,969,007
Less accumulated depreciation	30,398,942	26,536,350
NET ELECTRIC PLANT	98,288,894	47,432,657
 OTHER ASSETS AND INVESTMENTS:		
Investments in associated organizations	9,207,855	8,260,369
Non-utility property	51,472	
Temporarily restricted investments	802,395	237
Goodwill, net of amortization	125,590	125,590
TOTAL OTHER ASSETS AND INVESTMENTS	10,187,312	8,386,196
 CURRENT ASSETS:		
Cash and temporary cash investments	828,003	1,383,695
Accounts receivable, less allowance for doubtful accounts of \$250,100 and \$64,510 in 2010 and 2009, respectively	11,735,972	3,669,673
Refundable power costs		81,165
Materials and supplies	2,969,211	1,031,638
Prepaid expenses and other current assets	283,635	406,119
Prepaid federal income tax	14,500	14,500
TOTAL CURRENT ASSETS	15,831,321	6,586,790
DEFERRED DEBITS	11,020,889	23,000
TOTAL ASSETS	\$ 135,328,416	\$ 62,428,643

The accompanying notes are an integral part of these statements.

EQUITIES AND LIABILITIES	<u>2010</u>	<u>2009</u>
EQUITIES:		
Memberships	\$ 83,400	\$ 79,265
Patronage capital	20,774,589	19,172,647
Other equities	<u>1,080,926</u>	<u>1,323,451</u>
TOTAL EQUITIES	<u>21,938,915</u>	<u>20,575,363</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES:		
Mortgage note to CoBank	64,000,000	
Mortgage notes to Rural Utilities Service	27,695,761	27,152,083
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	7,581,990	8,430,304
Vehicle loan-Soo Co-op Credit Union	<u>11,874</u>	<u>18,616</u>
TOTAL LONG-TERM DEBT	<u>99,289,625</u>	<u>35,808,655</u>
OTHER NON-CURRENT LIABILITIES		
Accrued Postretirement benefits other than pensions and deferred compensation	1,366,672	1,093,977
Deferred income tax liability	<u>35,949</u>	<u>36,789</u>
TOTAL OTHER NON-CURRENT LIABILITIES	<u>1,402,621</u>	<u>1,130,766</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	1,609,516	1,289,196
Line of credit	750,000	
Accounts payable:		
Purchased power	4,412,748	1,579,712
Other	1,926,919	306,426
Refundable power costs	82,849	
Customer deposits and prepayments	261,930	167,080
Accrued interest	347,237	105,354
Accrued vacation and sick pay	939,059	407,330
Accrued taxes and other current liabilities	<u>2,366,760</u>	<u>1,058,524</u>
TOTAL CURRENT LIABILITIES	<u>12,697,018</u>	<u>4,913,622</u>
DEFERRED CREDITS	<u>237</u>	<u>237</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 135,328,416</u>	<u>\$ 62,428,643</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	% Of Operating Revenue
OPERATING REVENUES	\$ 59,733,402	100.00
OPERATING EXPENSES:		
Cost of power – produced	2,099,593	3.51
Cost of power – purchased	32,037,314	53.64
Cost of goods sold	655,913	1.11
Transmission	4,102,588	6.87
Distribution – operations	1,872,081	3.13
Distribution – maintenance	3,223,307	5.40
Customer accounts	1,747,084	2.92
Customer service and information	408,974	0.68
Sales expense	155,650	0.26
Administrative and general	3,783,786	6.33
Depreciation	4,175,673	6.99
Taxes – property	1,815,206	3.04
Taxes – other	125,843	0.21
TOTAL OPERATING EXPENSES	56,203,012	94.09
OPERATING MARGINS BEFORE FIXED CHARGES	3,530,390	5.91
FIXED CHARGES:		
Interest on long-term debt	1,886,383	3.16
Other interest	674,957	1.13
TOTAL FIXED CHARGES	2,561,340	4.29
OPERATING MARGINS AFTER FIXED CHARGES	969,050	1.62
CAPITAL CREDITS	605,673	1.02
NET OPERATING MARGINS	1,574,723	2.64
NON-OPERATING MARGINS:		
Interest	90,383	0.15
Other	897,998	1.50
TOTAL NON-OPERATING MARGINS	988,381	1.65
NET MARGINS	\$ 2,563,104	4.29

The accompanying notes are an integral part of these statements.

2009	% Of Operating Revenue
\$ 23,498,855	100.00
1,208,901	5.14
11,401,234	48.52
763,701	3.25
491	0.00
967,298	4.12
1,715,780	7.30
700,562	2.98
36,812	0.16
84,647	0.36
2,076,813	8.84
2,002,692	8.52
706,176	3.01
90,290	0.38
<u>21,755,397</u>	<u>92.58</u>
<u>1,743,458</u>	<u>7.42</u>
1,915,734	8.15
6,067	0.03
<u>1,921,801</u>	<u>8.18</u>
(178,343)	(0.76)
<u>185,814</u>	<u>0.79</u>
<u>7,471</u>	<u>0.03</u>
171,076	0.73
868,748	3.70
<u>1,039,824</u>	<u>4.43</u>
<u>\$ 1,047,295</u>	<u>4.46</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATED STATEMENT OF EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>Memberships</u>	<u>Patronage capital</u>	<u>Other equities</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, January 1, 2009	\$ 79,455	\$ 19,125,692	\$ 1,746,038	\$ (541,975)	\$ 20,409,110
Adjustment for SFAS No. 158				48,472	48,472
Memberships issued	(190)				(190)
Other equity transactions		48,941	21,693		70,634
Retirement of capital credits		(999,958)			(999,958)
Current year margins		998,072	49,223		1,047,295
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2009	79,265	19,172,647	1,816,954	(493,503)	20,575,363
Adjustment for SFAS No. 158				(214,765)	(214,765)
Memberships issued	4,135				4,135
Other equity transactions			11,078		11,078
Retirement of capital credits		(1,000,000)			(1,000,000)
Current year margins		2,601,942	(38,838)		2,563,104
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2010	<u>\$ 83,400</u>	<u>\$ 20,774,589</u>	<u>\$ 1,789,194</u>	<u>\$ (708,268)</u>	<u>\$ 21,938,915</u>

The accompanying notes are an integral part of these statements.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 51,435,479	\$ 22,516,327
Cash paid to suppliers and employees	(43,426,861)	(18,409,986)
Rent income	34,620	28,528
Interest received	119,687	171,024
Interest paid	(2,319,457)	(1,943,820)
Taxes paid	(1,580,800)	(559,053)
	4,262,668	1,803,020
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of plant	(55,399,566)	(3,418,001)
Plant removal costs	(38,739)	(50,228)
Net proceeds from sale of plant	31,401	
(Increase) decrease in:		
Materials inventory	(1,963,100)	4,764
Investments in associated organizations	472,758	108,152
	(56,897,246)	(3,355,313)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	64,000,000	
Line of credit borrowings	750,000	
Retirement of patronage capital credits	(705,145)	(775,086)
Donated capital	11,078	21,693
Loan advances		2,700,000
Payments on debt	(1,422,555)	(1,263,623)
Investment in cushion of credit		(1,488,402)
Use of cushion of credit	1,241,420	
Increase in deferred debits	(10,997,889)	
Purchase of restricted investments	(802,158)	
Memberships issued, net	4,135	(190)
	52,078,886	(805,608)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(555,692)	(2,357,901)
CASH AND TEMPORARY CASH INVESTMENTS, beginning	1,383,695	3,741,596
CASH AND TEMPORARY CASH INVESTMENTS, ending	\$ 828,003	\$ 1,383,695

The accompanying notes are an integral part of these statements.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)

	2010	2009
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net margins	\$ 2,563,104	\$ 1,047,295
Adjustments to reconcile net margins to net cash provided by		
Operating activities:		
Depreciation and amortization	4,510,705	2,136,342
Capital credits	(605,673)	(185,814)
Patronage capital refunds applied to accounts written off	(312,429)	(242,047)
Loss (Gain) on the sale of fixed assets	(11,272)	(2,393)
Income from investment	(814,570)	(843,181)
(Increase) decrease in:		
Customer and other accounts receivable	(7,987,451)	(731,022)
Current & accrued assets - other	122,482	(224,361)
Inventory of subsidiary	25,527	882
Refundable power costs	81,165	236,801
Increase (decrease) in:		
Accounts payable	4,374,681	351,919
Refunds payable to members	82,849	
Accrued interest payable	241,883	(22,019)
Current and accrued liabilities – other	1,933,737	407,663
Accrued postretirement benefits other than pensions	57,930	(127,045)
Total adjustments	1,699,564	755,725
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,262,668	\$ 1,803,020

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 15):

The accompanying notes are an integral part of these statements.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the accounting policies adopted by Cloverland Electric Cooperative, Inc. which have a significant effect on the financial statements.

Organization

Cloverland Electric Cooperative, Inc. (Cloverland) is a non-profit organization that engages in the generation, purchase and sale electricity in the Eastern Upper Peninsula of Michigan. Cloverland is generally exempt from income tax under Section 501(c)(12) of the United States Internal Revenue Code. Cloverland is subject to the Michigan Business Tax Act of the State of Michigan. The financial statements have been prepared in conformity with U.S. generally accepted accounting principles and in accordance with Rural Utilities Service (RUS) guidelines.

On May 4, 2010, Cloverland purchased a 100% interest in Edison Sault Electric Company, LLC for \$63,347,708. This organization is comprised of a majority of the assets of the former Edison Sault Electric Company. Upon acquisition, the customers and employees were moved into Cloverland Electric Cooperative, Inc. The LLC, now holds the purchased property and equipment and the leases and contracts of the company. (See Note 17).

The Cooperative's subsidiary is a computer sales and internet service company. The subsidiary is organized as a U.S. Corporation and is subject to U.S. Federal Income Tax.

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Principles of Consolidation

The consolidated financial statements for 2010 and 2009 combine the financial results of Cloverland Electric Cooperative, Inc. and its wholly-owned subsidiary Lighthouse.Net as required by APB Opinion No. 18, Cloverland Electric Cooperative, Inc. has accounted for the investment using the equity method. All significant inter-company transactions and accounts have been eliminated. In accordance with RUS guidelines, the activity of the subsidiary is not assignable to members of the Cooperative, the result is to include the net activities of the subsidiary in Other Equities.

Electric Plant and Equipment

Additions, with a life expectancy of more than one year, are recorded at cost less contributions in aid of construction received from customers. As items are retired or otherwise disposed of, the asset account is credited for the cost and the accumulated depreciation account is charged. The cost of removal less salvage is also charged to the accumulated depreciation account.

Revenue

Cloverland records revenue monthly, as billed, on the basis of automated and manual meter readings. Automated readings can be taken at any time, and the actual receivable due at the end of the period can be booked with certainty. Manual readings are taken throughout the month, and an estimate of unbilled revenue relative to power consumed from the meter is made and added to the current period's revenue. Cloverland's accounts receivable balance, found on their balance sheet, includes amount for revenues accrued but not billed as of year-end.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue (continued)

Cloverland continually reviews its customer's creditworthiness and requests deposits and refunds based on that review. Cloverland's two largest customers accounted for approximately 15% of total revenues in 2010.

Concentration of Credit Risk

Cloverland maintains allowances for potential credit losses and, historically, such losses have been within management's estimates.

Investments

The carrying values of investments in associated organizations are stated at cost, adjusted for capital credits earned or retired.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include money market accounts and any highly liquid debt instruments purchased with a maturity of three months or less. Certificates of deposit and commercial paper with maturities between 90 days and one year are classified as short-term investments and stated at cost, which approximates market value. Certificates of deposit and commercial paper with maturities beyond one year are classified as other investments and stated at cost, which approximates market value.

Accounts receivable

Accounts receivable consist primarily of amounts due from members for electric service. An allowance for doubtful accounts has been estimated based on collection history. When a member's account becomes past due and uncollectible, the member's service is terminated. The Board of Directors approve all accounts charged off.

Materials and Supplies

Electrical materials and supplies are valued at the lower of market value or average unit cost. Merchandise held for resale is valued on the first-in, first-out basis.

Advertising

The cost of advertising is expensed as incurred.

Retirement Plan

Cloverland has a retirement plan and a savings plan for substantially all employees. Under the terms of the savings plan, Cloverland is required to contribute 8 percent of the employee's base annual earnings to the plan for non-union employees. As of October 22, 2010, Union employees receive an employer match based on the amount of the employees' contribution.

Contributions in Aid of Construction

Contributions in aid of construction are received from customers on electrical installations and re-applied against the construction costs.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2010 presentation.

NOTE 3: ASSETS PLEDGED

Substantially all assets are pledged as collateral on long-term debt payable to the Rural Utilities Service (RUS) of the United States of America and the National Rural Utilities Cooperative Finance Corporation (CFC).

NOTE 4: ELECTRIC PLANT AND DEPRECIATION RATES AND PROCEDURES

Major classes of electric plant as of December 31, 2010 and 2009 consisted of:

	<u>2010</u>	<u>2009</u>
Intangible plant	\$ 6,238,653	\$ 252
Distribution plant	95,398,215	59,989,984
Generation plant	10,227,408	3,496,989
Transmission plant	755,476	755,476
General plant	<u>13,496,187</u>	<u>7,657,776</u>
	126,115,939	71,900,477
Construction work in progress	<u>2,571,897</u>	<u>2,068,530</u>
TOTAL	<u><u>\$ 128,687,836</u></u>	<u><u>\$ 73,969,007</u></u>

Provision has been made for depreciation of the distribution plant, generation plant and transmission plant at straight-line composite rates of 2.8, 3.0 and 2.7 percent per annum for the years ended December 31, 2010 and 2009, respectively. General and generation plant depreciation rates have been applied on a straight-line basis and were as follows for the years ended December 31, 2010 and 2009:

	<u>Life Range in Years</u>
Structures and improvements	5 – 50
Office furniture	3 – 20
Transportation equipment	5 – 14
Power operated equipment	3 – 15
Other general plant	3 – 15
Communications equipment	5 – 10
Other generation plant	10 – 33

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: ELECTRIC PLANT AND DEPRECIATION RATES AND PROCEDURES - continued

Depreciation charges on electric plant in service were charged as follows for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Charged to:		
Depreciation and amortization expense	\$ 4,175,673	\$ 2,002,692
Other expenses	<u>254,304</u>	<u>133,650</u>
Total Expensed	4,429,977	2,136,342
Capitalized	<u>80,728</u>	<u>74,296</u>
 TOTAL DEPRECIATION	 <u>\$ 4,510,705</u>	 <u>\$ 2,210,638</u>

NOTE 5: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations as of December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
National Rural Utilities Cooperative Finance Corporation:		
Capital term and zero term certificates maturing through 2080 interest rates between 0% and 5%	\$ 821,374	\$ 831,163
Long-term certificates maturing through 2030 at an interest rate of 3%	48,000	48,000
Patronage capital credits	251,000	235,934
American Transmission Company, LLC	6,920,652	6,530,062
Federated Rural Electric Ins. Co.	194,908	160,862
CoBank	459,907	28,920
Deferred compensation funds	113,141	98,912
Other	<u>398,873</u>	<u>326,516</u>
 TOTAL	 <u>\$ 9,207,855</u>	 <u>\$ 8,260,369</u>

In 2001, the Cooperative transferred transmission assets with a net book value of \$4,632,376 to American Transmission Company, LLC for a .83% investment in the partnership. The Cooperative received cash from the partnership of \$2,316,188 and was allocated \$142,434 for any possible tax adjustments. The investment at December 31, 2010 and 2009 is \$6,920,652 and \$6,530,062, respectively. This transaction was approved by the Rural Utilities Service.

**CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 6: GOODWILL

The carrying amount of Goodwill for the years ended December 31, 2010 and 2009 is \$125,590 and \$125,590, respectively. The requirements of Statement of Financial Accounting standards No. 142, "Goodwill and Other Intangible Assets," requires that Goodwill be valued at its fair market value and adjusted annually for any impairment losses. Management has determined that there has been no impairment in the carrying value of the Goodwill.

NOTE 7: SHORT TERM INVESTMENTS - RESTRICTED

On March 20, 1984, the Michigan Public Service Commission issued its opinion and order in Case No. U-7901, directing Michigan's Rural Electric Cooperatives to maintain power supply cost recovery over-collections and refundable contributions in restricted accounts to be used only for the purpose for which they are intended.

In order to accomplish the objectives of the Commission, RUS accounting and reporting requirements, a non-complex mechanism acceptable to CFC and a workable approach acceptable to Cloverland Electric Cooperative, Inc., Cloverland, on December 17, 1985, entered into an agreement with CFC to escrow power supply cost recovery over-collections and refundable contributions. A monthly certification is to be included with the monthly Form 7 advising RUS as to amounts included in the special funds representing power supply cost recovery over-collections and refundable contributions.

Cloverland is to provide CFC a copy of the monthly certification described above which will serve as notice to CFC as to the amount below which the fund should not fall. Under the provisions of the agreement with CFC when the amount of deposits held by CFC falls below the level set forth in the latest available certification furnished CFC, CFC will advise RUS and the Commission if Cloverland has not remedied the deficiency within three business days of notification by CFC to Cloverland.

The following is a summary of the cash amounts restricted as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Construction advances	\$ 237	\$ 237
Refundable power costs	<u>82,849</u>	<u> </u>
TOTAL	83,086	237
Amount of required restriction in excess of available CFC investment	<u>719,309</u>	<u>-</u>
TOTAL FUNDS RESTRICTED	<u>\$ 802,395</u>	<u>\$ 237</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: CASH AND INVESTMENTS

Statements of Financial Accounting Standards (SFAS) No. 105 require disclosure of significant concentrations of credit risk arising from cash deposits in excess of federally insured limits. The detail of these amounts are as follows:

	Per Institution
Insured	\$ 804,209
Uninsured	1,425,653
Total deposits at banks	2,229,862
In transit items	(614,569)
	1,615,293
Restricted for temporary investments	(820,309)
Undeposited funds	25,698
Working funds	3,640
Money market funds and special construction	3,681
Total Cash	\$ 828,003

NOTE 9: PATRONAGE CAPITAL

Patronage capital balances as of December 31, 2010 and 2009 consisted of:

	2010	2009
Assignable	\$ 2,601,942	\$ 1,047,013
Assigned	31,323,431	30,276,418
	33,925,373	31,323,431
Less retirements to date	13,150,784	12,150,784
Balance	\$ 20,774,589	\$ 19,172,647

In accordance with 7 CFR 1717.617, published in the Federal Register on December 29, 1995, RUS approval is already given for distribution borrowers declaring or paying patronage capital retirements if the following requirements are met: after the distribution, the borrower's equity is equal to/or greater than 30 percent of its total assets; the borrower is current on all payments due on all notes secured under the mortgage; the borrower is not in default under its loan documents; and after distribution, the borrower's current and accrued assets will not be less than its current and accrued liabilities. Additionally, approval from CFC is not necessary, if the cooperatives equity position immediately following the refund is greater than the 20 percent minimum mentioned in the CFC Mortgage.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: PATRONAGE CAPITAL – continued

The equities and margins of Cloverland represent 16.21% and 32.95% of the total assets at December 31, 2010 and 2009, respectively. The borrower is current on all payments due and is not in default under its loan documents.

Capital credit retirements representing patronage capital from 1989 and 2009 and retirements to deceased patrons, in the amounts of \$1,000,000 and \$999,958 were paid in the years ended December 31, 2010 and 2009, respectively.

NOTE 10: OTHER EQUITIES

Other equities consisted of the following for the years ending December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Pre-1978 operating margins	\$ 506,734	\$ 506,734
Pre-1978 non-operating margins	378,063	378,063
Capital gains	11,254	11,254
Donated capital	448,425	437,346
Non-assignable margins	<u>444,718</u>	<u>483,557</u>
TOTAL	<u>\$ 1,789,194</u>	<u>\$ 1,816,954</u>

NOTE 11: MORTGAGE NOTES

Long-term debt is composed of 1.47% to 8.10% mortgage notes payable to CoBank, the Rural Utilities Service (RUS) of the United States of America and the National Rural Utilities Cooperative Finance Corporation (CFC), and other local banks. The CoBank note will mature in September 2012, and is expected to be refinanced before that time. Certain mortgage notes to CFC will be repriced and the interest rate adjusted accordingly during the next 10 years in accordance with the policy and procedure governing such repricing. The RUS notes are for 35 year periods each, with principal and interest installments due either quarterly or monthly. The notes are scheduled to be fully repaid at various times from June 2011 through November 2042.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: MORTGAGE NOTES - continued

Detail of the long-term debt is as follows:

	2010	2009
Rural Utilities Service notes bearing interest at 3.45% to 5.23% per annum, payable in monthly and quarterly installments to 2042.	\$ 28,505,698	\$ 29,142,440
National Rural Utilities Cooperation Finance Corporation notes bearing interest at 5.20% to 8.1% per annum, payable in quarterly installments to the year 2034.	4,294,009	4,875,362
Notes payable to Freddie Mac in quarterly installments of \$137,814, including interest at 6.293%, with final maturity ranging from 2012 to 2034. Secured by substantially all assets.	4,016,481	4,220,942
CoBank note bearing interest at 1.47% per annum with final Maturity in September 2012, or upon receipt of RUS loan funds	64,000,000	
Note payable-Bank. Monthly installment payments of \$2,058, including interest at 6.5%, until November 20, 2011, with a final payment of \$198,745 due on December 20, 2011. Secured by land and building.	207,267	218,427
Vehicle loan-Bank. Monthly installment payments of \$627, including interest at 5.0%, until August 1, 2013. Secured by the vehicle purchased.	18,623	25,037
	101,042,078	38,482,208
Less:		
RUS Cushion of credit	142,937	1,384,357
Current maturities	1,609,516	1,289,196
TOTAL LONG-TERM DEBT	\$ 99,289,625	\$ 35,808,655

Unadvanced loan funds were available to Cloverland on the loan commitments from RUS/FFB in the amount of \$14,000,000 for 2010 and \$-0- for 2009, respectively. Unadvanced loan funds were available to Cloverland on the loan commitments from CFC in the amount of \$-0- for 2010 and 2009, respectively.

There was a CFC Power Vision loan available in the amount of \$8,600,000 for the year ended 2010 and 2009, respectively.

Maturities of long-term debt for each of the next five years are as follows:

	Total
2011	\$ 1,609,516
2012	65,507,082
2013	1,541,317
2014	1,582,427
2015	1,562,746

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: MORTGAGE NOTES - continued

The loan agreement requires certain financial ratios to be met in the operation and management of its business. The company did not meet these ratios for 2009. The Cooperative did obtain a waiver of these requirements for that year.

NOTE 12: LINE OF CREDIT

The Cooperative has available a perpetual line of credit with CFC in the amount of \$4,000,000 for 2010 and 2009, respectively. The Cooperative had an outstanding balance of \$-0- for 2010 and 2009. Interest at December 31, 2010 was charged at 4.25%

The Cooperative has available a line of credit with CoBank in the amount of \$10,000,000 for 2010. The Cooperative had an outstanding balance of \$-0- for 2010 and \$4,250,000 in 2009. Interest at December 31, 2010 was charged at 3.64%.

Maximum short term loan allowed by CFC and CoBank agreement is \$10,000,000 in any combination of either or both sources.

NOTE 13: DEFERRED DEBITS AND CREDITS

The balance of deferred credits at December 31, 2010 consists of a land contract receivable from the sale of vacant property to a governmental unit and a deferred regulatory asset relating to pension obligations assumed pursuant to the acquisition of Edison Sault Electric. The land contract is to be paid to the Cooperative over ten years. The balance was \$23,000 at December 31, 2010. The balance of the regulatory pension asset was \$10,997,889 at December 31, 2010. The Cooperative has concluded that substantially all of the unrecognized costs resulting from the recognition of the funded status of the pension and OPEB plans qualify as a regulatory asset.

The balance of deferred credits at December 31, 2010 and 2009 consists of consumers deposits for memberships, connection fees and aid to construction. The balances for these amounts were \$237 for both 2010 and 2009.

NOTE 14: RETIREMENT PLAN

Retirement plan benefits for substantially all employees are provided through participation in a retirement and security program (defined benefit plan) and savings plan (cash or deferred arrangements) of the National Rural Electric Cooperative Association (NRECA) and its member systems. The income earned by funds while held under the plans is qualified under Code Section 401 and tax-exempt under Code Section 501(a) of the Internal Revenue Code. The retirement and security program provides benefits to employees based on years of service and the highest five years of compensation for the last ten years of employment.

Contributions to the retirement and security program, which are determined by the NRECA, were \$797,282 and \$325,821 in 2010 and 2009, respectively. Contributions to the savings program, which are based on a percentage of the employees' compensation, were \$377,483 in 2010 and \$209,975 in 2009, respectively.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15: NON-CASH INVESTING AND FINANCING ACTIVITIES

Non-cash investing activities for 2010 and 2009 were as follows:

	2010	2009
Patronage capital allocated	\$ 552,015	\$ 131,400
Materials salvaged from inventory	7,079	50,227
Capital credits applied to bad debt	312,429	242,047
Capitalized depreciation	80,728	74,296

NOTE 16: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The plan sponsored by the cooperative is an unfunded defined benefit post-retirement plan that covers all employees who were hired before October 1, 1995, and who retire after the attainment of age 60 and completion of 15 years of service. Spouses of pensioners are included, with coverage continuing to the spouse after the pensioner's death. Employees of the cooperative as of October 1, 1995 had the option to participate in the defined benefit post-retirement health insurance plan or have a Rabbi trust established in their name (see below).

The Actuarial calculated amount of liability has been recounted as expense in prior years.

The plan's net periodic postretirement benefit cost include the following components:

Components of Benefit Cost	2010	2009
Service Cost	\$	\$
Interest Cost	74,630	79,550
Amortization of transition obligation	24,219	24,219
Recognition of net Gain/loss	24,253	24,253
Net periodic post-retirement benefit cost	\$ 123,102	\$ 128,022

The following table sets forth the plan funded status and amounts reported on the Cooperative's balance sheets:

Change in Benefit Obligation	2010	2009
Benefit obligation at beginning of year	\$ 995,065	\$ 1,060,664
Interest cost	74,630	79,549
Unrecognized prior service cost	370,273	
Net actuarial loss/(gain) for the prior year	(107,036)	
Benefits paid	(70,000)	(145,148)
Benefit obligation at end of year	\$ 1,262,932	\$ 995,065

**CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 16: POST-RETIREMENT BENEFITS OTHER THAN PENSIONS - continued

	2010	2009
Change in Plan Assets		
Fair value of plan assets at beginning of year		
Actual return on plan assets		
Employer contributions	\$ 70,000	\$ 145,148
Benefits paid	(70,000)	(145,148)
Fair value of plan assets at end of year	\$ -	\$ -
Recognized Benefit Obligation	\$ (1,262,932)	\$ (995,065)
Amounts Recognized in Accumulated Other Comprehensive Loss - Beginning	\$ 493,503	\$ 541,975
Prior service cost	370,273	
Net actuarial gains	(107,036)	
Transition obligation	(24,219)	(24,219)
Net current year loss	(24,253)	(24,253)
Amounts Recognized in Accumulated Other Comprehensive Loss	\$ 708,268	\$ 493,503

For measurement purposes a 9.0% and 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010 and 2009, respectively. The rate was assumed to decrease gradually by 0.5% per year to an ultimate rate of 5.0% per annum

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7.5 percent.

Benefits are expected to be paid out as follows:

2011	\$ 88,171
2012	103,315
2013	112,087
2014	120,018
2015	114,377
2016 and after	470,728

A Rabbi Trust was established for the employees who were hired before 10/01/95 and who elected not to be covered by the Cooperatives post retirement health insurance. Some employees elected the total buyout under this option. The buyout costs were expensed when paid. The Rabbi Trust was fully funded at December 31, 2010.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17: LEASES AND POWER PURCHASE AGREEMENTS

The Cooperative's primary source of generation is its 30-megawatt hydroelectric-generating plant located on the St. Marys River in Sault Ste. Marie, Michigan. The water for this facility is leased under a contract between Edison Sault Electric Company, LLC and the United States Corps of Engineers with tenure to December 31, 2075. However, the Secretary of the Army has the right to terminate the contract subsequent to December 2050 by providing at least a five-year termination notice. No such notice can be given prior to December 31, 2045. The Cooperative pays for all water taken from the St. Marys River at predetermined rates with a minimum annual payment of \$200,000. Rentals under this contract for eight months were \$403,700 in 2010. The total flow of water taken out of Lake Superior, which in effect is the flow of water in the St. Marys River, is under the direction and control of the International Joint Commission, created by the Boundary Water Treaty of 1909 between the United States and Great Britain, now represented by Canada.

The International Joint Commission places limitations on the flow of water from Lake Superior that limits Cloverland's amount of hydroelectric generation. Water elevation levels on Lake Superior have been below normal levels since 1998, resulting in decreased water release. During any limited flow months, it is necessary for the Cooperative to purchase additional power from other sources or increase the use of the Cooperative's diesel generation. Water elevation levels on Lake Superior in 2006 and 2007 approached or exceeded all-time record seasonal lows, resulting in less water available for hydroelectric operation. Water elevation levels on Lake Superior improved in the fall of 2007, but are still well below normal elevation levels. In 2010, the water elevations improved over 2007 levels, but continue to be below normal.

Hydroelectric generation is also purchased by Edison Sault Electric Company, LLC under contract from the United States Corps of Engineers' hydroelectric-generating plant located within the Soo Locks complex on the St. Marys River in Sault Ste. Marie, Michigan. This 17-megawatt contract has tenure to November 1, 2040, and cannot be terminated by the United States Government prior to November 1, 2030. Payments under the contract, for the eight months in 2010 were \$1,233,965, with modifications to such payments for power outages and the cost of designated repairs in excess of the federal share of such costs. Annual payments are subject to re-negotiation every five years, and the re-negotiation increasing the payment to \$1,850,948 was approved in January 2009.

NOTE 18: COMMITMENTS AND CONTINGENCIES

St. Ignace division Remediation Project - A decommissioned diesel-generating site located at the St. Ignace Division's service center is currently being remediated for diesel fuel. The Michigan Department of Natural Resources and Environment (DNRE) is working with the Cooperative at the site. The cost of monitoring and remediation for eight months was \$11,381 in 2010. At this time, we cannot reasonably estimate future monitoring and remediation expenses.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19: DEFERRED COMPENSATION

Cloverland Electric Cooperative, Inc. offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan is administered by Cloverland and is available to all employees. The plan allows employees to defer a portion of their salary until a future date. It becomes available to the employee at death, termination, retirement or disability. This plan has not been formally approved by the IRS.

All amounts deferred under the plan, all investments purchased with those amounts and all income attributable to those amounts are the sole property of Cloverland. The preceding amounts are subject only to the claims of general creditors of the Cooperative in an amount equal to the fair market value of the deferred account for each participant.

Cloverland has no liability for losses under the plan, but does have the duty of due care that would be required as a prudent investor. Cloverland has invested the amounts deferred by employees in a trust account each year. Therefore, the assets are segregated and Cloverland feels that it is highly unlikely that the assets would be used to satisfy the claims of general creditors.

The investment balances in the plan are stated at market value and consist of mutual funds.

Cloverland has adopted a Cafeteria Plan for all employees in lieu of the deferred compensation plan.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20: INCOME TAXES

The detail of the deferred tax liability of Lighthouse.Net is as follows:

	<u>2010</u>	<u>2009</u>
Deferred tax asset arising from:		
Timing difference	\$ 5,101	\$ 6,449
Deferred tax liability arising from:		
Accumulated depreciation for tax purposes in excess of book	<u>(41,050)</u>	<u>(43,238)</u>
Net deferred tax asset (liability)	<u>\$ (35,949)</u>	<u>\$ (36,789)</u>

The detail of income tax expense is as follows:

	<u>2010</u>	<u>2009</u>
Current operations	\$ 1,768	\$ (3,512)
Deferred taxes	<u>(840)</u>	<u>(11,538)</u>
Total income tax benefit (expense)	<u>\$ 928</u>	<u>\$ (15,050)</u>

Management believes that positions taken during prior years and to be taken for 2010 in reporting federal taxable income for Cloverland and Lighthouse are not controversial and have a high degree of being sustained upon an examination by the taxing authority.

NOTE 21: SUBSEQUENT EVENTS

On May 5, 2011, Lighthouse.Net signed an agreement to purchase the assets of a regional cable provider for \$400,000. The Lighthouse board of directors approved the transaction in May 5, 2011.

Cloverland Electric Cooperative, Inc. and subsidiary management has evaluated the impact of subsequent events as they relate to the financial statements through May 16, 2011, the date of issuance of the financial statements.

ADDITIONAL INFORMATION

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2010

	Cloverland Electric Cooperative	Lighthouse.net	Eliminations	Consolidated Total
ASSETS				
ELECTRIC PLANT:				
In service – at cost	\$ 124,876,123	\$ 1,239,816	\$	\$ 126,115,939
Construction work in progress	2,569,085	2,812		2,571,897
	127,445,208	1,242,628		128,687,836
Less accumulated depreciation	29,792,507	606,435		30,398,942
NET ELECTRIC PLANT	97,652,701	636,193		98,288,894
OTHER ASSETS AND INVESTMENTS:				
Investments in associated organizations	9,102,588	105,267		9,207,855
Investment in subsidiary	669,719		(669,719)	
Receivables from subsidiary	78,848		(78,848)	
Non-utility property	51,472			51,472
Temporarily restricted investments	802,395			802,395
Goodwill, net of amortization		125,590		125,590
TOTAL OTHER ASSETS AND INVESTMENTS	10,705,022	230,857	(748,567)	10,187,312
CURRENT ASSETS:				
Cash and temporary cash investments	721,463	106,540		828,003
Accounts receivable, less allowance for doubtful accounts of approximately \$250,100	11,600,684	68,362	66,926	11,735,972
Refundable power costs				
Materials and supplies	2,947,100	22,111		2,969,211
Prepaid expenses and other current assets	277,782	5,853		283,635
Prepaid Federal income tax		14,500		14,500
TOTAL CURRENT ASSETS	15,547,029	217,366	66,926	15,831,321
DEFERRED DEBITS	11,020,889			11,020,889
TOTAL ASSETS	\$ 134,925,641	\$ 1,084,416	\$ (681,641)	\$ 135,328,416

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2010
(continued)

	Cloverland Electric Cooperative	Lighthouse.net	Eliminations	Consolidated Total
EQUITIES:				
Memberships	\$ 83,400	\$	\$	\$ 83,400
Patronage capital	20,774,589			20,774,589
Other equities	1,080,926	669,719	(669,719)	1,080,926
TOTAL EQUITIES	21,938,915	669,719	(669,719)	21,938,915
LONG-TERM DEBT, NET OF CURRENT MATURITIES:				
Mortgage note to CoBank	64,000,000			64,000,000
Mortgage notes to Rural Utilities Service	27,695,761			27,695,761
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	7,581,990			7,581,990
Bank loan-Soo Co-op Credit Union		11,874		11,874
TOTAL LONG-TERM DEBT	99,277,751	11,874		99,289,625
OTHER NON-CURRENT LIABILITIES				
Accrued Postretirement benefits other than pensions and deferred compensation	1,366,672			1,366,672
Deferred income tax liability		35,949		35,949
TOTAL OTHER NON-CURRENT LIABILITIES	1,366,672	35,949		1,402,621
CURRENT LIABILITIES:				
Current maturities of long-term debt	1,395,500	214,016		1,609,516
Line of credit	750,000			750,000
Accounts payable:				
Purchased power	4,412,748			4,412,748
Other	1,905,010	21,909		1,926,919
Intercompany		11,922	(11,922)	
Refundable power costs	82,849			82,849
Customer deposits and prepayments	177,893	84,037		261,930
Accrued interest	347,237			347,237
Accrued vacation and sick pay	939,059			939,059
Accrued taxes and other current liabilities	2,331,770	34,990		2,366,760
TOTAL CURRENT LIABILITIES	12,342,066	366,874	(11,922)	12,697,018
DEFERRED CREDITS	237			237
TOTAL EQUITIES AND LIABILITIES	\$ 134,925,641	\$ 1,084,416	\$ (681,641)	\$ 135,328,416

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATING STATEMENT OF REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2010

	Cloverland Electric Cooperative	Lighthouse.net	Eliminations	Consolidated Total
OPERATING REVENUES	\$ 58,516,542	\$ 1,216,860	\$	\$ 59,733,402
OPERATING EXPENSES:				
Cost of power-produced	2,099,593			2,099,593
Cost of power—purchased	32,037,314			32,037,314
Cost of goods sold		655,913		655,913
Transmission	4,102,588			4,102,588
Distribution – operations	1,872,081			1,872,081
Distribution – maintenance	3,223,307			3,223,307
Customer accounts	1,718,056	29,028		1,747,084
Customer service and information expense	408,974			408,974
Sales expense	155,650			155,650
Administrative and general	3,298,800	493,952	(8,966)	3,783,786
Depreciation and amortization	4,066,979	108,694		4,175,673
Taxes – property	1,794,660	20,546		1,815,206
Taxes – other	101,956	23,887		125,843
TOTAL OPERATING EXPENSES	54,879,958	1,332,020	(8,966)	56,203,012
OPERATING MARGINS BEFORE FIXED CHARGES	3,636,584	(115,160)	8,966	3,530,390
FIXED CHARGES:				
Interest on long-term debt	1,871,743	14,640		1,886,383
Other interest	674,957			674,957
TOTAL FIXED CHARGES	2,546,700	14,640		2,561,340
OPERATING MARGINS AFTER FIXED CHARGES	1,089,884	(129,800)	8,966	969,050
CAPITAL CREDITS	552,015	53,658		605,673
NET OPERATING MARGINS	1,641,899	(76,142)		1,574,723
NON-OPERATING MARGINS:				
Interest Income	87,423	2,960		90,383
Other	872,620	34,344	(8,966)	897,998
Income from subsidiary	(38,838)		38,838	
TOTAL NON-OPERATING MARGINS	921,205	37,304	38,838	988,381
NET MARGINS	\$ 2,563,104	\$ (38,838)	\$ 38,838	\$ 2,563,104



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

May 16, 2011

To the Board of Directors
Cloverland Electric Cooperative, Inc.
Dafter, Michigan

We have audited the financial statements of Cloverland Electric Cooperative, Inc. for the year ended December 31, 2010, and have issued our report thereon dated May 16, 2011. 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

In planning and performing our audit, we considered Cloverland Electric Cooperative's 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 on the effectiveness of Cloverland Electric Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cloverland Electric Cooperative's 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 misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and other matters

As part of obtaining reasonable assurance about whether Cloverland Electric Cooperative's 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 would have a direct and material effect on the determination of 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*.

This report is intended solely for the information and use of the Board of Directors, management, the Rural Utilities Service, and supplemental lenders, entities and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants

**MICHIGAN 43 CHIPPEWA
CLOVERLAND ELECTRIC COOPERATIVE, INC.
REPORT ON FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

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CLOVERLAND ELECTRIC COOPERATIVE, INC.
BOARD OF DIRECTORS
DECEMBER 31, 2010

Robert Schallip	President
Rodney Richards	Vice President
Richard Newland	Secretary/Treasurer
Carl R. Eagle	Director
Tamara Gady	Director
Peter Legault	Director
Gerald Nettleton	Director
Dale Carlson	Director
Frank Talentino	Director

General Manager

Daniel Dasho



Independent Auditor's Report

The Board of Directors
Cloverland Electric Cooperative, Inc.
Dafter, Michigan

We have audited the accompanying balance sheets of Cloverland Electric Cooperative, Inc. as of December 31, 2010 and 2009, and the related statements of revenue, equities, and cash flows for the years then ended. These financial statements are the responsibility of Cloverland Electric Cooperative, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 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 audits provide a reasonable basis for our opinion.

Generally accepted accounting principles require that all majority-owned subsidiaries be consolidated in the financial statements with the parent company. If the financial statements of the cooperative had been consolidated with its majority-owned subsidiary, total assets and total liabilities would have increased by \$402,775 and \$422,863 for the years ended December 31, 2010 and 2009, respectively.

In our opinion, except for the effects of not including the wholly-owned subsidiary's activity, the financial statements referred to above present fairly, in all material respects, the financial position of Cloverland Electric Cooperative, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years 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 May 16, 2011, on our consideration of Cloverland Electric Cooperative, Inc.'s 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.

May 16, 2011

CLOVERLAND ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
ELECTRIC PLANT:		
In service – at cost	\$ 124,876,123	\$ 70,725,083
Construction work in progress	2,569,085	2,023,366
SUBTOTAL	127,445,208	72,748,449
Less accumulated depreciation	29,792,507	26,037,382
NET ELECTRIC PLANT	97,652,701	46,711,067
 OTHER ASSETS AND INVESTMENTS:		
Investments in associated organizations	9,102,588	8,195,345
Investment in subsidiary	669,719	708,557
Accounts receivable from subsidiary	78,848	4,198
Non-utility property	51,472	
Temporarily restricted investments	802,395	237
TOTAL OTHER ASSETS AND INVESTMENTS	10,705,022	8,908,337
 CURRENT ASSETS:		
Cash and temporary cash investments	721,463	1,241,703
Accounts receivable, less allowance for doubtful accounts of \$245,000 and \$53,000 in 2010 and 2009, respectively	11,600,684	3,651,611
Refundable power costs		81,165
Materials and supplies	2,947,100	984,000
Prepaid expenses and other current assets	277,782	404,897
TOTAL CURRENT ASSETS	15,547,029	6,363,376
DEFERRED DEBITS	11,020,889	23,000
TOTAL ASSETS	\$ 134,925,641	\$ 62,005,780

The accompanying notes are an integral part of these statements.

	<u>2010</u>	<u>2009</u>
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	\$ 83,400	\$ 79,265
Patronage capital	20,774,589	19,172,647
Other equities	<u>1,080,926</u>	<u>1,323,451</u>
TOTAL EQUITIES	<u>21,938,915</u>	<u>20,575,363</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES:		
Mortgage notes to CoBank	64,000,000	
Mortgage notes to Rural Utilities Service	27,695,761	27,152,083
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	<u>7,581,990</u>	<u>8,430,304</u>
TOTAL LONG-TERM DEBT	<u>99,277,751</u>	<u>35,582,387</u>
OTHER NON-CURRENT LIABILITIES		
Accrued Postretirement benefits other than pensions and deferred Compensation	<u>1,366,672</u>	<u>1,093,977</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	1,395,500	1,272,000
Line of credit	750,000	
Accounts payable:		
Purchased power	4,412,748	1,579,712
Other	1,905,010	284,292
Refundable power costs	82,849	
Customer deposits and prepayments	177,893	80,897
Accrued interest	347,237	105,354
Accrued vacation and sick pay	939,059	407,330
Accrued taxes and other current liabilities	<u>2,331,770</u>	<u>1,024,231</u>
TOTAL CURRENT LIABILITIES	<u>12,342,066</u>	<u>4,753,816</u>
DEFERRED CREDITS	<u>237</u>	<u>237</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 134,925,641</u>	<u>\$ 62,005,780</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
STATEMENTS OF REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	% Of Operating Revenue
OPERATING REVENUES	\$ 58,516,542	100.00
OPERATING EXPENSES:		
Cost of power – produced	2,099,593	3.59
Cost of power – purchased	32,037,314	54.75
Transmission	4,102,588	7.01
Distribution – operations	1,872,081	3.20
Distribution – maintenance	3,223,307	5.51
Customer accounts	1,718,056	2.94
Customer service and information	408,974	0.70
Sales expense	155,650	0.27
Administrative and general	3,298,800	5.64
Depreciation	4,066,979	6.95
Taxes – property	1,794,660	3.07
Taxes – other	101,956	0.17
TOTAL OPERATING EXPENSES	54,879,958	93.80
OPERATING MARGINS BEFORE FIXED CHARGES	3,636,584	6.20
FIXED CHARGES:		
Interest on long-term debt	1,871,743	3.20
Other interest	674,957	1.15
TOTAL FIXED CHARGES	2,546,700	4.35
OPERATING MARGINS AFTER FIXED CHARGES	1,089,884	1.85
CAPITAL CREDITS	552,015	0.96
NET OPERATING MARGINS	1,641,899	2.81
NON-OPERATING MARGINS:		
Interest	87,423	0.15
Other	872,620	1.49
Income from subsidiary	(38,838)	(0.07)
TOTAL NON-OPERATING MARGINS	921,205	1.57
NET MARGINS	\$ 2,563,104	4.38

The accompanying notes are an integral part of these statements.

2009	% Of Operating Revenue
\$ 22,149,857	100.00
1,208,901	5.46
11,401,234	51.47
491	0.00
967,298	4.37
1,715,780	7.75
687,771	3.10
36,812	0.17
84,647	0.38
1,662,384	7.51
1,891,596	8.54
684,786	3.09
46,112	0.20
<u>20,387,812</u>	<u>92.04</u>
<u>1,762,045</u>	<u>7.96</u>
1,900,195	8.58
6,067	0.03
<u>1,906,262</u>	<u>8.61</u>
(144,217)	(0.65)
<u>131,400</u>	<u>0.59</u>
<u>(12,817)</u>	<u>(0.06)</u>
167,708	0.76
843,181	3.81
49,223	0.22
<u>1,060,112</u>	<u>4.79</u>
<u>\$ 1,047,295</u>	<u>4.73</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
STATEMENT OF EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>Memberships</u>	<u>Patronage capital</u>	<u>Other equities</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, January 1, 2009	\$ 79,455	\$ 19,125,692	\$ 1,746,038	\$ (541,975)	\$ 20,409,110
Adjustment for SFAS No. 158				48,472	48,472
Memberships issued	(190)				(190)
Other equity transactions		48,941	21,693		70,634
Retirement of capital credits		(999,958)			(999,958)
Current year margins		998,072	49,223		1,047,295
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2009	79,265	19,172,647	1,816,954	(493,503)	20,575,363
Adjustment for SFAS No. 158				(214,765)	(214,765)
Memberships issued	4,135				4,135
Other equity transactions			11,078		11,078
Retirement of capital credits		(1,000,000)			(1,000,000)
Current year margins		2,601,942	(38,838)		2,563,104
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2010	<u>\$ 83,400</u>	<u>\$ 20,774,589</u>	<u>\$ 1,789,194</u>	<u>\$ (708,268)</u>	<u>\$ 21,938,915</u>

The accompanying notes are an integral part of these statements.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 50,354,681	\$ 21,153,009
Cash paid to suppliers and employees	(42,264,911)	(17,171,118)
Interest received	116,727	167,656
Interest paid	(2,304,817)	(1,928,281)
Taxes paid	(1,556,641)	(544,568)
	4,345,039	1,676,698
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of plant	(55,375,994)	(3,319,366)
Plant removal costs	(38,739)	(50,228)
Net proceeds from sale of plant	31,401	
(Increase) decrease in:		
Materials inventory	(1,963,100)	4,764
Investments in associated organizations	459,343	96,775
Receivables from wholly-owned subsidiary	(74,650)	(902)
	(56,961,739)	(3,268,957)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	64,000,000	
Line of credit borrowings	750,000	
Retirement of patronage capital credits	(687,571)	(757,911)
Donated capital	11,078	21,693
RUS and CFC loan advances		2,700,000
Payments on debt	(1,422,555)	(1,263,623)
Investment in cushion of credit		(1,488,402)
Use of cushion of credit	1,241,420	
Increase in deferred debits	(10,997,889)	
Purchase of restricted investments	(802,158)	
Memberships issued, net	4,135	(190)
	52,096,460	(788,433)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(520,240)	(2,380,692)
CASH AND TEMPORARY CASH INVESTMENTS, beginning	1,241,703	3,622,395
CASH AND TEMPORARY CASH INVESTMENTS, ending	\$ 721,463	\$ 1,241,703

The accompanying notes are an integral part of these statements.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)

	2010	2009
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net margins	\$ 2,563,104	\$ 1,047,295
Adjustments to reconcile net margins to net cash provided by		
Operating activities:		
Depreciation and amortization	4,402,011	2,025,246
Capital credits	(552,015)	(131,400)
Patronage capital refunds applied to billings and bad debts	(312,429)	(242,047)
Loss (Gain) on the sale of fixed assets	(11,548)	(3,554)
Income on investment in wholly-owned subsidiary	38,838	(49,223)
Earnings on investment in associated organization	(814,570)	(843,181)
(Increase) decrease in:		
Customer and other accounts receivable	(7,949,073)	(747,079)
Current & accrued assets - other	127,113	(237,798)
Refundable power costs	81,165	236,801
Increase (decrease) in:		
Accounts payable, net of capital items	4,453,754	380,429
Refunds payable to members	82,849	
Accrued interest payable	241,883	(22,019)
Current and accrued liabilities – other	1,936,027	341,800
Accrued postretirement benefits other than pensions	57,930	(78,572)
Total adjustments	1,781,935	629,403
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,345,039	\$ 1,676,698

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 14):

The accompanying notes are an integral part of these statements.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the accounting policies adopted by Cloverland Electric Cooperative, Inc. which have a significant effect on the financial statements.

Organization

Cloverland Electric Cooperative, Inc. (Cloverland) is a non-profit organization that engages in the generation, purchase and sale electricity in the Eastern Upper Peninsula of Michigan. Cloverland is generally exempt from income tax under Section 501(c)(12) of the United States Internal Revenue Code. Cloverland is subject to the Michigan Business Tax Act of the State of Michigan. The financial statements have been prepared in conformity with U.S. generally accepted accounting principles and in accordance with Rural Utilities Service (RUS) guidelines.

On May 4, 2010, Cloverland purchased a 100% interest in Edison Sault Electric Company, LLC for \$63,347,708. This organization is comprised of a majority of the assets of the former Edison Sault Electric Company. Upon acquisition, the customers and employees were moved into Cloverland Electric Cooperative, Inc. The LLC, now holds the purchased property and equipment and the leases and contracts of the company. (See Note 16).

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Principles of Consolidation

The consolidated financial statements for 2010 combine the financial results of Cloverland Electric Cooperative, Inc and its wholly owned subsidiary, Edison Sault Electric Company, LLC. As required by APB Opinion No. 18 and SFAS No. 94, Cloverland has accounted for the investment using the Equity Method. All significant inter-company transactions and accounts have been eliminated.

Electric Plant

Additions, with a life expectancy of more than one year, are recorded at cost, less contributions in aid of construction received from customers. As items are retired or otherwise disposed of, the asset account is credited for the cost and the accumulated depreciation account is charged. The cost of removal less salvage is also charged to the accumulated depreciation account

Revenue

Cloverland records revenue monthly, as billed, on the basis of automated and manual meter readings. Automated readings can be taken at any time, and the actual receivable due at the end of the period can be booked with certainty. Manual readings are taken throughout the month, and an estimate of unbilled revenue relative to power consumed from the meter is made and added to the current period's revenue. Cloverland's accounts receivable balance, found on their balance sheet, includes amount for revenues accrued but not billed as of year-end.

Cloverland continually reviews its customer's creditworthiness and requests deposits and refunds based on that review. Cloverland's two largest customers accounted for approximately 15% of total revenues in 2010.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Concentration of Credit Risk

Cloverland maintains allowances for potential credit losses and, historically, such losses have been within management's estimates.

Investments

The carrying values of investments in associated organizations are stated at cost, adjusted for capital credits earned or retired.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include money market accounts and any highly liquid debt instruments purchased with a maturity of three months or less. Certificates of deposit and commercial paper with maturities between 90 days and one year are classified as short-term investments and stated at cost, which approximates market value. Certificates of deposit and commercial paper with maturities beyond one year are classified as other investments and stated at cost, which approximates market value.

Accounts receivable

Accounts receivable consist primarily of amounts due from members for electric service. An allowance for doubtful accounts has been estimated based on collection history. When a member's account becomes past due and uncollectible, the member's service is terminated. The Board of Directors approve all accounts charged off.

Materials and Supplies

Electrical materials and supplies are valued at the lower of market value or average unit cost. Merchandise held for resale is valued on the first-in, first-out basis.

Advertising

The cost of advertising is expensed as incurred.

Retirement Plan

Cloverland has a retirement plan and a savings plan for substantially all employees. Under the terms of the savings plan, Cloverland is required to contribute 8 percent of the employee's base annual earnings to the plan for non-union employees. As of October 22, 2010, Union employees receive an employer match based on the amount of the employees' contribution.

Contributions in Aid of Construction

Contributions in aid of construction are received from customers on electrical installations and re-applied against the construction costs.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2: RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2010 presentation.

NOTE 3: ELECTRIC PLANT AND DEPRECIATION RATES AND PROCEDURES

Major classes of electric plant as of December 31, 2010 and 2009 consisted of:

	<u>2010</u>	<u>2009</u>
Intangible plant	\$ 6,238,653	\$ 252
Distribution plant	95,398,215	59,989,984
Generation plant	10,227,408	3,496,989
Transmission plant	755,476	755,476
General plant	<u>12,256,371</u>	<u>6,482,382</u>
	124,876,123	70,725,083
Construction work in progress	<u>2,569,085</u>	<u>2,023,366</u>
TOTAL	<u>\$ 127,445,208</u>	<u>\$ 72,748,449</u>

Provision has been made for depreciation of the distribution plant, generation plant and transmission plant at straight-line composite rates of 2.8, 3.0 and 2.7 percent per annum for the years ended December 31, 2010 and 2009, respectively. General and generation plant depreciation rates have been applied on a straight-line basis and were as follows for the years ended December 31, 2010 and 2009:

	<u>Life Range in Years</u>
Structures and improvements	5 – 50
Office furniture	3 – 20
Transportation equipment	5 – 14
Power operated equipment	3 – 15
Other general plant	3 – 15
Communications equipment	5 – 10
Other generation plant	10 – 33

Depreciation charges on electric plant in service were charged as follows for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Charged to:		
Depreciation and amortization expense	\$ 4,066,979	\$ 1,891,596
Other expenses	<u>254,304</u>	<u>133,650</u>
Total Expensed	4,321,283	2,025,246
Capitalized	<u>80,728</u>	<u>74,296</u>
TOTAL DEPRECIATION	<u>\$ 4,402,011</u>	<u>\$ 2,099,542</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations as of December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
National Rural Utilities Cooperative		
Finance Corporation:		
Capital term and zero term certificates maturing through 2080, interest rates between 0% and 5%	\$ 821,374	\$ 831,163
Long-term certificates maturing through 2030 at an interest rate of 3%	48,000	48,000
Patronage capital credits	251,000	235,934
American Transmission Company, LLC	6,920,652	6,530,062
Federated Rural Electric Ins. Co.	194,908	160,862
CoBank	459,907	28,920
Deferred compensation funds	113,141	98,912
Other	<u>293,606</u>	<u>261,492</u>
 TOTAL	 <u>\$ 9,102,588</u>	 <u>\$ 8,195,345</u>

The following is a detailed schedule of investments in affiliated and subsidiary companies:

	<u>Lighthouse.Net</u>
Original investment	\$ 225,000
Net undistributed income, to date, as of December 31, 2009	<u>483,557</u>
Book value as of December 31, 2009	708,557
Undistributed loss during 2010	<u>(38,838)</u>
Book value as of December 31, 2010	<u>\$ 669,719</u>

Lighthouse.Net sells computer equipment and provides internet service. Cloverland Electric Cooperative owns 100% of the company and accounts for its investment using the equity method.

In 2001, the Cooperative transferred transmission assets with a net book value of \$4,632,376 to American Transmission Company, LLC for a .83% investment in the partnership. The Cooperative received cash from the partnership of \$2,316,188 and was allocated \$142,434 for any possible tax adjustments. The investment at December 31, 2010 and 2009 is \$6,920,652 and \$6,530,062, respectively. This transaction was approved by the Rural Utilities Service.

**CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 5: SHORT TERM INVESTMENTS - RESTRICTED

On March 20, 1984, the Michigan Public Service Commission issued its opinion and order in Case No. U-7901, directing Michigan's Rural Electric Cooperatives to maintain power supply cost recovery over-collections and refundable contributions in restricted accounts to be used only for the purpose for which they are intended.

In order to accomplish the objectives of the Commission, RUS accounting and reporting requirements, a non-complex mechanism acceptable to CFC and a workable approach acceptable to Cloverland Electric Cooperative, Inc., Cloverland, on December 17, 1985, entered into an agreement with CFC to escrow power supply cost recovery over-collections and refundable contributions. A monthly certification is to be included with the monthly Form 7 advising RUS as to amounts included in the special funds representing power supply cost recovery over-collections and refundable contributions.

Cloverland is to provide CFC a copy of the monthly certification described above which will serve as notice to CFC as to the amount below which the fund should not fall. Under the provisions of the agreement with CFC when the amount of deposits held by CFC falls below the level set forth in the latest available certification furnished CFC, CFC will advise RUS and the Commission if Cloverland has not remedied the deficiency within three business days of notification by CFC to Cloverland.

The following is a summary of the cash amounts restricted as of December 31, 2010 and 2009:

	2010	2009
Construction advances	\$ 237	\$ 237
Refundable power costs	82,849	
TOTAL	83,086	237
Amount of investment in excess of required restriction	719,309	-
TOTAL FUNDS RESTRICTED	\$ 802,395	\$ 237

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6: CASH AND INVESTMENTS

Statements of Financial Accounting Standards (SFAS) No. 105 require disclosure of significant concentrations of credit risk arising from cash deposits in excess of federally insured limits. The detail of these amounts are as follows:

	Per Institution
Insured	\$ 698,856
Uninsured	1,425,653
Total deposits at banks	2,124,509
In transit items	(589,858)
	1,534,651
Restricted for temporary investments	(820,309)
Working funds	3,440
Money market funds and special construction	3,681
Total Cash	\$ 721,463

NOTE 7: PATRONAGE CAPITAL

Patronage capital balances as of December 31, 2010 and 2009 consisted of:

	2010	2009
Assignable	\$ 2,601,942	\$ 1,047,013
Assigned	31,323,431	30,276,418
	33,925,373	31,323,431
Less retirements to date	13,150,784	12,150,784
Balance	\$ 20,774,589	\$ 19,172,647

In accordance with 7 CFR 1717.617, published in the Federal Register on December 29, 1995, RUS approval is already given for distribution borrowers declaring or paying patronage capital retirements if the following requirements are met: after the distribution, the borrower's equity is equal to/or greater than 30 percent of its total assets; the borrower is current on all payments due on all notes secured under the mortgage; the borrower is not in default under its loan documents; and after distribution, the borrower's current and accrued assets will not be less than its current and accrued liabilities. Additionally, approval from CFC is not necessary, if the cooperatives equity position immediately following the refund is greater than the 20 percent minimum mentioned in the CFC Mortgage.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 7: PATRONAGE CAPITAL - continued

The equities and margins of Cloverland represent 16.26% and 33.18% of the total assets at December 31, 2010 and 2009, respectively. The borrower is current on all payments due and is not in default under its loan documents.

Capital credit retirements representing patronage capital from 1989 and 2009 and retirements to deceased patrons, in the amounts of \$1,000,000 and \$999,958 were paid in the years ended December 31, 2010 and 2009, respectively.

NOTE 8: OTHER EQUITIES

Other equities consisted of the following for the years ending December 31, 2010 and 2009:

	2010	2009
Pre-1978 operating margins	\$ 506,734	\$ 506,734
Pre-1978 non-operating margins	378,063	378,063
Capital gains	11,254	11,254
Donated capital	448,425	437,346
Non-assignable margins	444,718	483,557
TOTAL	\$ 1,789,194	\$ 1,816,954

NOTE 9: ASSETS PLEDGED

Substantially all assets are pledged as collateral on long-term debt payable to the Rural Utilities Service (RUS) of the United States of America and the National Rural Utilities Cooperative Finance Corporation (CFC).

NOTE 10: MORTGAGE NOTES

Long-term debt is composed of 1.47% to 8.10% mortgage notes payable to CoBank, the Rural Utilities Service (RUS) of the United States of America and the National Rural Utilities Cooperative Finance Corporation (CFC). The CoBank note will mature in September 2012, and is expected to be refinanced before that time. Certain mortgage notes to CFC will be repriced and the interest rate adjusted accordingly during the next 10 years in accordance with the policy and procedure governing such repricing. The RUS notes are for 35 year periods each, with principal and interest installments due either quarterly or monthly. The notes are scheduled to be fully repaid at various times from June 2011 through November 2042.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10: MORTGAGE NOTES - continued

Detail of the long-term debt is as follows:

	2010	2009
Rural Utilities Service notes bearing interest at 3.45% to 5.23% per annum, payable in monthly and quarterly installments through 2042.	\$ 28,505,698	\$ 29,142,440
National Rural Utilities Cooperation Finance Corporation notes bearing interest at 5.20% to 8.1% per annum, payable in quarterly installment to the year 2034.	4,294,009	4,875,362
Notes payable to Freddie Mac in quarterly installments of \$137,814, Including interest at 6.293%, with final maturity ranging from 2012 to 2034. Secured by substantially all assets.	4,016,481	4,220,942
CoBank note bearing interest at 1.47% per annum with final maturity in September 2012, or upon receipt of RUS loan funds.	64,000,000	
	100,816,188	38,238,744
Less:		
RUS Cushion of credit	142,937	1,384,357
Current maturities	1,395,500	1,272,000
TOTAL LONG-TERM DEBT	\$ 99,277,751	\$ 35,582,357

Unadvanced loan funds were available to Cloverland on the loan commitments from RUS/FFB in the amount of \$14,000,000 for 2010 and \$-0- for 2009, respectively. Unadvanced loan funds were available to Cloverland on the loan commitments from CFC in the amount of \$-0- for 2010 and 2009, respectively.

There was a CFC Power Vision loan available in the amount of \$8,600,000 for the year ended 2010 and 2009, respectively.

Maturities of long-term debt for each of the next five years are as follows:

2011	\$ 1,395,500
2012	65,499,987
2013	1,536,538
2014	1,582,427
2015	1,562,746

The loan agreement requires certain financial ratios to be met in the operation and management of its business. The company did not meet these ratios for 2009. The Cooperative did obtain a waiver of these requirements for that year.

**CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 11: LINE OF CREDIT

The Cooperative has available a perpetual line of credit with CFC in the amount of \$4,000,000 for 2010 and 2009, respectively. The Cooperative had an outstanding balance of \$-0- for 2010 and 2009. Interest at December 31, 2010 was charged at 4.25%

The Cooperative has available a line of credit with CoBank in the amount of \$10,000,000 for 2010. The Cooperative had an outstanding balance of \$-0- for 2010 and \$4,250,000 in 2009. Interest at December 31, 2010 was charged at 3.64%.

Maximum short term loan allowed by CFC and CoBank agreement is \$10,000,000 in any combination of either or both sources.

NOTE 12: DEFERRED DEBITS AND CREDITS

The balance of deferred credits at December 31, 2010 consists of a land contract receivable from the sale of vacant property to a governmental unit and a deferred regulatory asset relating to pension obligations assumed pursuant to the acquisition of Edison Sault Electric. The land contract is to be paid to the Cooperative over ten years. The balance was \$23,000 at December 31, 2010. The balance of the regulatory pension asset was \$10,997,889 at December 31, 2010. The Cooperative has concluded that substantially all of the unrecognized costs resulting from the recognition of the funded status of the pension and OPEB plans qualify as a regulatory asset.

The balance of deferred credits at December 31, 2010 and 2009 consists of consumers deposits for memberships, connection fees and aid to construction. The balances for these amounts were \$237 for both 2010 and 2009.

NOTE 13: RETIREMENT PLAN

Retirement plan benefits for substantially all employees are provided through participation in a retirement and security program (defined benefit plan) and savings plan (cash or deferred arrangements) of the National Rural Electric Cooperative Association (NRECA) and its member systems. The income earned by funds while held under the plans is qualified under Code Section 401 and tax-exempt under Code Section 501(a) of the Internal Revenue Code. The retirement and security program provides benefits to employees based on years of service and the highest five years of compensation for the last ten years of employment.

Contributions to the retirement and security program, which are determined by the NRECA, were \$797,282 and \$325,821 in 2010 and 2009, respectively. Contributions to the savings program, which are based on a percentage of the employees' compensation, were \$377,483 in 2010 and \$209,975 in 2009, respectively.

NOTE 14: NON-CASH INVESTING AND FINANCING ACTIVITIES

Non-cash investing activities for 2010 and 2009 were as follows:

	2010	2009
Patronage capital allocated	\$ 552,015	\$ 131,400
Materials salvaged from inventory	7,079	50,227
Capital credits applied to accounts receivable	312,429	242,047
Capitalized depreciation	80,728	74,296

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 15: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The plan sponsored by the cooperative is an unfunded defined benefit post-retirement plan that covers all employees who were hired before October 1, 1995, and who retire after the attainment of age 60 and completion of 15 years of service. Spouses of pensioners are included, with coverage continuing to the spouse after the pensioner's death. Employees of the cooperative as of October 1, 1995 had the option to participate in the defined benefit post-retirement health insurance plan or have a Rabbi trust established in their name (see below).

The Actuarial calculated amount of liability has been recounted as expense in prior years.

The plan's net periodic postretirement benefit cost include the following components:

Components of Benefit Cost	<u>2010</u>	<u>2009</u>
Service Cost	\$	\$
Interest Cost	74,630	79,550
Amortization of transition obligation	24,219	24,219
Recognition of net Gain/loss	<u>24,253</u>	<u>24,253</u>
Net periodic post-retirement benefit cost	<u>\$ 123,102</u>	<u>\$ 128,022</u>

The following table sets forth the plan funded status and amounts reported on the Cooperative's balance sheets:

Change in Benefit Obligation	<u>2010</u>	<u>2009</u>
Benefit obligation at beginning of year	\$ 995,065	\$ 1,060,664
Interest cost	74,630	79,549
Unrecognized prior service cost	370,273	
Net actuarial loss/(gain) for the prior year	(107,036)	
Benefits paid	<u>(70,000)</u>	<u>(145,148)</u>
Benefit obligation at end of year	<u>\$ 1,262,932</u>	<u>\$ 995,065</u>
 Change in Plan Assets		
Fair value of plan assets at beginning of year		
Actual return on plan assets		
Employer contributions	\$ 70,000	\$ 145,148
Benefits paid	<u>(70,000)</u>	<u>(145,148)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>

**CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 15: POST-RETIREMENT BENEFITS OTHER THAN PENSIONS - continued

	2010	2009
Recognized Benefit Obligation	\$ (1,262,932)	\$ (995,065)
Amounts Recognized in Accumulated Other Comprehensive Loss - Beginning	\$ 493,503	\$ 541,975
Prior service cost	370,273	
Net actuarial gains	(107,036)	
Transition obligation	(24,219)	(24,219)
Net current year loss	(24,253)	(24,253)
Amounts Recognized in Accumulated Other Comprehensive Loss	\$ 708,268	\$ 493,503

For measurement purposes a 9.0% and 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010 and 2009, respectively. The rate was assumed to decrease gradually by 0.5% per year to an ultimate rate of 5.0% per annum

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7.5 percent.

Benefits are expected to be paid out as follows:

2011	\$	88,171
2012		103,315
2013		112,087
2014		120,018
2015		114,377
2016 and after		470,728

A Rabbi Trust was established for the employees who were hired before 10/01/95 and who elected not to be covered by the Cooperatives post retirement health insurance. Some employees elected the total buyout under this option. The buyout costs were expensed when paid. The Rabbi Trust was fully funded at December 31, 2010.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 16: LEASES AND POWER PURCHASE AGREEMENTS

The Cooperative's primary source of generation is its 30-megawatt hydroelectric-generating plant located on the St. Marys River in Sault Ste. Marie, Michigan. The water for this facility is leased under a contract between Edison Sault Electric Company, LLC and the United States Corps of Engineers with tenure to December 31, 2075. However, the Secretary of the Army has the right to terminate the contract subsequent to December 2050 by providing at least a five-year termination notice. No such notice can be given prior to December 31, 2045. The Cooperative pays for all water taken from the St. Marys River at predetermined rates with a minimum annual payment of \$200,000. Rentals under this contract for eight months were \$403,700 in 2010. The total flow of water taken out of Lake Superior, which in effect is the flow of water in the St. Marys River, is under the direction and control of the International Joint Commission, created by the Boundary Water Treaty of 1909 between the United States and Great Britain, now represented by Canada.

The International Joint Commission places limitations on the flow of water from Lake Superior that limits Cloverland's amount of hydroelectric generation. Water elevation levels on Lake Superior have been below normal levels since 1998, resulting in decreased water release. During any limited flow months, it is necessary for the Cooperative to purchase additional power from other sources or increase the use of the Cooperative's diesel generation. Water elevation levels on Lake Superior in 2006 and 2007 approached or exceeded all-time record seasonal lows, resulting in less water available for hydroelectric operation. Water elevation levels on Lake Superior improved in the fall of 2007, but are still well below normal elevation levels. In 2010, the water elevations improved over 2007 levels, but continue to be below normal.

Hydroelectric generation is also purchased by Edison Sault Electric Company, LLC under contract from the United States Corps of Engineers' hydroelectric-generating plant located within the Soo Locks complex on the St. Marys River in Sault Ste. Marie, Michigan. This 17-megawatt contract has tenure to November 1, 2040, and cannot be terminated by the United States Government prior to November 1, 2030. Payments under the contract, for the eight months in 2010 were \$1,233,965, with modifications to such payments for power outages and the cost of designated repairs in excess of the federal share of such costs. Annual payments are subject to re-negotiation every five years, and the re-negotiation increasing the payment to \$1,850,948 was approved in January 2009.

NOTE 17: COMMITMENTS AND CONTINGENCIES

St. Ignace division Remediation Project - A decommissioned diesel-generating site located at the St. Ignace Division's service center is currently being remediated for diesel fuel. The Michigan Department of Natural Resources and Environment (DNRE) is working with the Cooperative at the site. The cost of monitoring and remediation for eight months was \$11,381 in 2010. At this time, we cannot reasonably estimate future monitoring and remediation expenses.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 18: DEFERRED COMPENSATION

Cloverland Electric Cooperative, Inc. offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan is administered by Cloverland and is available to all employees. The plan allows employees to defer a portion of their salary until a future date. It becomes available to the employee at death, termination, retirement or disability. This plan has not been formally approved by the IRS.

All amounts deferred under the plan, all investments purchased with those amounts and all income attributable to those amounts are the sole property of Cloverland. The preceding amounts are subject only to the claims of general creditors of the Cooperative in an amount equal to the fair market value of the deferred account for each participant.

Cloverland has no liability for losses under the plan, but does have the duty of due care that would be required as a prudent investor. Cloverland has invested the amounts deferred by employees in a trust account each year. Therefore, the assets are segregated and Cloverland feels that it is highly unlikely that the assets would be used to satisfy the claims of general creditors.

The investment balances in the plan are stated at market value and consist of mutual funds.

Cloverland has adopted a Cafeteria Plan for all employees in lieu of the deferred compensation plan.

NOTE 19: RELATED PARTY TRANSACTIONS

Lighthouse.Net (Lighthouse) is a wholly-owned subsidiary of Cloverland Electric Cooperative, Inc. (Cloverland). Cloverland has furnished personnel and other operation facilities such as bookkeeping and computer services for Lighthouse. During the year Cloverland has charged Lighthouse for these services. There was an inter-company receivable at December 31, 2010 and 2009 of \$78,848 and \$4,198 respectively.

NOTE 20: SUBSEQUENT EVENTS

Cooperative management has evaluated the impact of subsequent events as they relate to the financial statements through May 16, 2011, the date of issuance of the financial statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

May 16, 2011

To the Board of Directors
Cloverland Electric Cooperative, Inc.
Dafter, Michigan

We have audited the financial statements of Cloverland Electric Cooperative, Inc. for the year ended December 31, 2010, and have issued our report thereon dated May 16, 2011. 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

In planning and performing our audit, we considered Cloverland Electric Cooperative's 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 on the effectiveness of Cloverland Electric Cooperative internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cloverland Electric Cooperative's 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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and other matters

As part of obtaining reasonable assurance about whether Cloverland Electric Cooperative's 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 would have a direct and material effect on the determination of 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*.

This report is intended solely for the information and use of the Board of Directors, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants

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