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UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE	BORROWER DESIGNATION MI0043
FINANCIAL AND STATISTICAL REPORT	PERIOD ENDED December, 2008 (Prepared with Audited Data)
INSTRUCTIONS - For detailed instructions, see RUS Bulletin 1717B-2. <i>This data will be used by RUS to review your financial situation. Your response is required (7 U.S.C. 901 et. seq.) and may be confidential.</i>	BORROWER NAME CLOVERLAND ELECTRIC COOP

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

5/18/2009

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	20,843,372	21,280,154	22,391,351	1,622,382
2. Power Production Expense	571,026	1,019,547	673,544	204,538
3. Cost of Purchased Power	11,103,158	10,624,214	12,270,827	995,556
4. Transmission Expense	1,097	487	2,591	40
5. Distribution Expense - Operation	750,691	895,266	748,502	177,922
6. Distribution Expense - Maintenance	1,601,723	1,660,530	1,663,266	170,351
7. Customer Accounts Expense	631,262	673,169	621,384	69,659
8. Customer Service and Informational Expense	32,202	47,024	33,029	3,453
9. Sales Expense	70,867	86,232	82,911	8,360
10. Administrative and General Expense	1,723,492	2,130,765	1,667,130	252,632
11. Total Operation & Maintenance Expense (2 thru 10)	16,485,518	17,137,234	17,763,184	1,882,511
12. Depreciation and Amortization Expense	1,720,119	1,800,388	1,720,452	153,475
13. Tax Expense - Property & Gross Receipts	668,525	674,235	594,000	53,235
14. Tax Expense - Other	111,775	51,590	85,802	(44,500)
15. Interest on Long-Term Debt	1,613,300	1,763,084	1,789,459	159,860
16. Interest Charged to Construction - Credit	0	0	0	0
17. Interest Expense - Other	235,013	119,159	73,267	520
18. Other Deductions	7,486	13,441	8,623	12,131
19. Total Cost of Electric Service (11 thru 18)	20,841,736	21,559,131	22,034,787	2,217,232
20. Patronage Capital & Operating Margins (1 minus 19)	1,636	(278,977)	356,564	(594,850)
21. Non Operating Margins - Interest	85,980	95,923	77,337	9,514
22. Allowance for Funds Used During Construction	0	0	0	0
23. Income (Loss) from Equity Investments	73,738	(66,760)	3,500	30,921
24. Non Operating Margins - Other	937,018	1,489,514	749,775	688,437
25. Generation and Transmission Capital Credits	0	0	0	0
26. Other Capital Credits and Patronage Dividends	122,769	140,257	148,916	4,406
27. Extraordinary Items	0	0	0	0
28. Patronage Capital or Margins (20 thru 27)	1,221,141	1,379,957	1,336,092	138,428

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INSTRUCTIONS - See RUS Bulletin 1717B-2

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	214	143	5. Miles Transmission	0.00	0.00
2. Services Retired	49	39	6. Miles Distribution - Overhead	2,143.33	2,144.11
3. Total Services in Place	19,725	19,829	7. Miles Distribution - Underground	419.49	429.11
4. Idle Services (Exclude Seasonals)	440	437	8. Total Miles Energized (5 + 6 + 7)	2,562.82	2,573.22

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	69,176,973	29. Memberships.....	79,455
2. Construction Work in Progress	716,836	30. Patronage Capital.....	17,745,635
3. Total Utility Plant (1 + 2)	69,893,809	31. Operating Margins - Prior Years.....	506,734
4. Accum. Provision for Depreciation and Amort	24,683,634	32. Operating Margins - Current Year.....	(138,721)
5. Net Utility Plant (3 - 4)	45,210,175	33. Non-Operating Margins.....	2,331,074
6. Non-Utility Property (Net)	0	34. Other Margins and Equities.....	(115,067)
7. Investments in Subsidiary Companies	660,659	35. Total Margins & Equities (29 thru 34).....	20,409,110
8. Invest. in Assoc. Org. - Patronage Capital	398,139	36. Long-Term Debt - RUS (Net).....	26,485,448
9. Invest. in Assoc. Org. - Other - General Funds	0	37. Long-Term Debt - FFB - RUS Guaranteed.....	0
10. Invest. in Assoc. Org. - Other - Nongeneral Funds..	6,759,042	38. Long-Term Debt - Other - RUS Guaranteed.....	0
11. Investments in Economic Development Projects	0	39. Long-Term Debt Other (Net).....	9,106,914
12. Other Investments	0	40. Long-Term Debt - RUS - Econ. Devel. (Net).....	0
13. Special Funds	0	41. Payments - Unapplied	0
14. Total Other Property & Investments (6 thru 13) ...	7,817,840	42. Total Long-Term Debt (36 thru 40 - 41).....	35,592,362
15. Cash - General Funds	3,603,925	43. Obligations Under Capital Leases - Noncurrent.....	0
16. Cash - Construction Funds - Trustee	21,005	44. Accumulated Operating Provisions and Asset Retirement Obligations..	1,060,663
17. Special Deposits	0	45. Total Other Noncurrent Liabilities (43 + 44).....	1,060,663
18. Temporary Investments	3,689	46. Notes Payable.....	0
19. Notes Receivable (Net)	0	47. Accounts Payable.....	1,479,503
20. Accounts Receivable - Sales of Energy (Net)	2,830,072	48. Consumers Deposits.....	90,957
21. Accounts Receivable - Other (Net)	394,396	49. Current Maturities Long-Term Debt.....	1,210,000
22. Materials and Supplies - Electric & Other	1,127,459	50. Current Maturities Long-Term Debt -Economic Development.....	0
23. Prepayments	46,339	51. Current Maturities Capital Leases.....	0
24. Other Current and Accrued Assets	10,014	52. Other Current and Accrued Liabilities.....	1,213,708
25. Total Current and Accrued Assets (15 thru 24)	8,036,899	53. Total Current & Accrued Liabilities (46 thru 52).....	3,994,168
26. Regulatory Assets	0	54. Regulatory Liabilities.....	0
27. Other Deferred Debits	(4,948)	55. Other Deferred Credits.....	3,663
28. Total Assets and Other Debits (5+14+25 thru 27)..	61,059,966	56. Total Liabilities and Other Credits (35+ 42 + 45 + 53 thru 55).....	61,059,966

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PART D. NOTES TO FINANCIAL STATEMENTS

Set forth below are amounts included in Special Funds, (Part C, Line 13) representing PSCR overcollections and refundable contributions restricted per Michigan Public Service Commission Order in Case No. U-7901

(March 20, 1984):

Refundable contributions: \$237

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BORROWER DESIGNATION

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INSTRUCTIONS - See RUS Bulletin 1717B-2

PART E. CHANGES IN UTILITY PLANT

PLANT ITEM	BALANCE BEGINNING OF YEAR (a)	ADDITIONS (b)	RETIREMENTS (c)	ADJUSTMENTS AND TRANSFER (d)	BALANCE END OF YEAR (e)
1. Distribution Plant	57,117,783	2,207,467	665,279		58,659,971
2. General Plant	4,336,812	140,484	52,295		4,425,001
3. Headquarters Plant	1,805,920	33,363			1,839,283
4. Intangibles	252				252
5. Transmission Plant	755,476				755,476
6. All Other Utility Plant	3,496,990				3,496,990
7. Total Utility Plant in Service (1 thru 6)	67,513,233	2,381,314	717,574		69,176,973
8. Construction Work in Progress	375,132	341,704			716,836
9. TOTAL UTILITY PLANT (7 + 8)	67,888,365	2,723,018	717,574		69,893,809

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	1,261,219	1,285,931		1,462,617	1,836	37,452	1,120,149
2. Other	8,916	1,811			3,417		7,310

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	29.686	116.879	15.630	392.701	554.896
2. Five-Year Average	59.648	254.142	8.196	260.200	582.186

PART H. EMPLOYEE-HOUR AND PAYROLL STATISTICS

1. Number of Full Time Employees	47	4. Payroll - Expensed	2,512,712
2. Employee - Hours Worked - Regular Time	96,959	5. Payroll - Capitalized	616,350
3. Employee - Hours Worked - Overtime	7,052	6. Payroll - Other	25,187

PART I. PATRONAGE CAPITAL

ITEM	DESCRIPTION	THIS YEAR (a)	CUMULATIVE (b)
1. Capital Credits - Distributions	a. General Retirements	624,523	10,636,822
	b. Special Retirements	40,481	513,974
	c. Total Retirements (a + b)	665,004	11,150,796
2. Capital Credits - Received	a. Cash Received From Retirement of Patronage Capital by Suppliers of Electric Power	0	
	b. Cash Received From Retirement of Patronage Capital by Lenders for Credit Extended to the Electric System	61,615	
	c. Total Cash Received (a + b)	61,615	

PART J. DUE FROM CONSUMERS FOR ELECTRIC SERVICE

1. AMOUNT DUE OVER 60 DAYS	\$ 73,650	2. AMOUNT WRITTEN OFF DURING YEAR	\$ 73,566
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INSTRUCTIONS - See RUS Bulletin 1717B-2

BORROWER DESIGNATION

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Part K. kWh PURCHASED AND TOTAL COST

No	ITEM (a)	RUS USE ONLY SUPPLIER CODE (b)	kWh PURCHASED (c)	TOTAL COST (d)	AVERAGE COST (Cents/kWh) (e)	INCLUDED IN TOTAL COST - FUEL COST ADJUSTMENT (f)	INCLUDED IN TOTAL COST - WHEELING AND OTHER CHARGES (g)
1	Edison Sault Electric Company	5659	240,680,201	10,346,482	4.30		
2	Newberry Water & Light Board	13525	793,523	277,732	35.00		
	Total		241,473,724	10,624,214	4.40		

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PART L. LONG-TERM LEASES

No	NAME OF LESSOR (a)	TYPE OF PROPERTY (b)	RENTAL THIS YEAR (c)
Total			

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INSTRUCTIONS - See RUS Bulletin 1717B-2

PART M. ANNUAL MEETING AND BOARD DATA

1. Date of Last Annual Meeting 4/30/2008	2. Total Number of Members 18,856	3. Number of Members Present at Meeting 230	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 \$ 93,834	8. Does Manager Have Written Contract? Y

FINANCIAL AND STATISTICAL REPORT

INSTRUCTIONS - See RUS Bulletin 1717B-2

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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)	26,485,448	1,150,421	447,883	1,598,304
2	National Rural Utilities Cooperative Finance Corporation	9,106,914	612,663	753,278	1,365,941
3	Bank for Cooperatives				
4	Federal Financing Bank				
5	RUS - Economic Development Loans				
6	Payments Unapplied				
	Total	35,592,362	1,763,084	1,201,161	2,964,245

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PERIOD ENDED

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INSTRUCTIONS - See RUS Bulletin 1717B-2

PART O. POWER REQUIREMENTS DATA BASE - ANNUAL SUMMARY

CLASSIFICATION	CONSUMER SALES & REVENUE DATA	DECEMBER	AVERAGE NO. CONSUMERS SERVED	TOTAL YEAR TO DATE
		(a)	(b)	(c)
1. Residential Sales (excluding seasonal)	a. No. Consumers Served	9,713	9,715	
	b. kWh Sold			100,229,607
	c. Revenue			10,004,116
2. Residential Sales - Seasonal	a. No. Consumers Served	7,447	7,495	
	b. kWh Sold			20,784,530
	c. Revenue			3,346,188
3. Irrigation Sales	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
4. Comm. and Ind. 1000 KVA or Less	a. No. Consumers Served	1,420	1,349	
	b. kWh Sold			39,263,938
	c. Revenue			3,675,485
5. Comm. and Ind. Over 1000 KVA	a. No. Consumers Served	4	4	
	b. kWh Sold			28,155,867
	c. Revenue			2,039,783
6. Public Street & Highway Lighting	a. No. Consumers Served	34	34	
	b. kWh Sold			518,201
	c. Revenue			69,788
7. Other Sales to Public Authorities	a. No. Consumers Served	237	236	
	b. kWh Sold			10,449,871
	c. Revenue			860,717
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			20,235,753
	c. Revenue			1,102,338
10. TOTAL No. of Consumers (lines 1a thru 9a)		18,856	18,834	
11. TOTAL kWh Sold (lines 1b thru 9b)				219,637,767
12. TOTAL Revenue Received From Sales of Electric Energy (line 1c thru 9c)				21,098,415
13. Other Electric Revenue				181,741
14. kWh - Own Use				778,379
15. TOTAL kWh Purchased				241,473,724
16. TOTAL kWh Generated				2,375,337
17. Cost of Purchases and Generation				11,644,248
18. Interchange - kWh - Net				
19. Peak - Sum All kW Input (Metered) Non-coincident <u>X</u> Coincident _____				41,931

FINANCIAL AND STATISTICAL REPORT

BORROWER DESIGNATION

MI0043

PERIOD ENDED

December, 2008

INSTRUCTIONS - See RUS Bulletin 1717B-2

PART I. INVESTMENTS

No	DESCRIPTION (a)	INCLUDED (\$) (b)	EXCLUDED (\$) (c)	INCOME OR LOSS (\$) (d)	RURAL DEVELOPMENT (e)
2	Investments in Associated Organizations				
	NRUCFC		222,455	44,268	
	NISC	61,995		3,806	
	NRTC	502			X
	CRC	16,884		4,472	
	RESCO	96,303		31,330	
	Federated	158,765		18,764	X
	NRUCFC CTCs		888,912		
	ATC	5,658,370		1,446,815	
	Lighthouse Computers Inc	660,659		(66,760)	X
	MECA	30,077			X
	NRUCFC		1,000		
	CoBank		21,918	37,616	
	Totals	6,683,555	1,134,285	1,520,311	
6	Cash - General				
	Old Mission Bank	3,502,685	100,000		
	CSB Payroll				
	Working Fund Petty Cash	1,240			
	Totals	3,503,925	100,000		
8	Temporary Investments				
	ED Jones		3,679		
	Credit Union Memberships	10			
	Totals	10	3,679		
9	Accounts and Notes Receivable - NET				
	AR Other	394,396			
	Totals	394,396			
11	TOTAL INVESTMENTS (1 thru 10)	10,581,886	1,237,964	1,520,311	

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FINANCIAL AND STATISTICAL REPORT

INSTRUCTIONS - See RUS Bulletin 1717B-2

BORROWER DESIGNATION

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PERIOD ENDED

December, 2008

PART II. LOAN GUARANTEES

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

FINANCIAL AND STATISTICAL REPORT

INSTRUCTIONS - See RUS Bulletin 1717B-2

BORROWER DESIGNATION

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Part III. RATIO

RATIO OF INVESTMENTS AND LOAN GUARANTEES TO UTILITY PLANT

[Total Of Included Investments (Part I, 11b) and Loan Guarantees - Loan Balance (Part II, 5d) to Total Utility Plant (Form7, Part C, Line3)]

15.14 %

PART 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				

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UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

OPERATING REPORT - FINANCIAL

BORROWER DESIGNATION MI0043

PERIOD ENDED
December, 2008 (Prepared with Audited Data)

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BORROWER NAME

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CLOVERLAND ELECTRIC COOP

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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 Form 12a Section C of this report.

Daniel Dasho

5/18/2009

DATE

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE OPERATING REPORT - INTERNAL COMBUSTION PLANT	BORROWER DESIGNATION	MI0043
	PLANT	Dafter
	PERIOD ENDED	December, 2008

INSTRUCTIONS - Submit an original and two copies to RUS or file electronically. For detailed instructions, see Bulletin 1717B-3.	<i>This data will be used to review your financial situation. Your response is required (7 U.S.C. 901 et. seq.) and may be confidential.</i>
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SECTION A. INTERNAL COMBUSTION GENERATING UNITS												
LINE NO.	UNIT NO. (a)	SIZE (kW) (b)	FUEL CONSUMPTION				OPERATING HOURS				GROSS GENERATION (MWh) (k)	BTU PER kWh (l)
			OIL (1000 Gals.) (c)	GAS (1000 C.F.) (d)	OTHER (e)	TOTAL (f)	IN SERVICE (g)	ON STANDBY (h)	OUT OF SERVICE			
			Sche.		Unsche.							
1.	1	1,000	3.70	0.00	0.00		95	8,689	0	0	35	
2.	2	1,000	0.00	0.00	0.00		0	0	8,784	0	0	
3.	3	1,000	4.50	0.00	0.00		103	8,681	0	0	54	
4.	4	3,000	63.70	0.00	0.00		515	8,269	0	0	916	
5.	5	3,000	61.00	0.00	0.00		516	8,268	0	0	876	
6.	TOTAL	9,000	132.90	0.00	0.00		1,229	33,907	8,784	0	1,881	
7.	Average BTU		138,999.24			STATION SERVICE (MWh)				376.40		
8.	Total BTU (10 ⁶)		18,473.00			18,473.00	NET GENERATION (MWh)				1,504.60	12,277.68
9.	Total Del. Cost (\$)		396,356.00				STATION SERVICE % OF GROSS				20.01	

SECTION B. LABOR REPORT					SECTION C. FACTORS & MAXIMUM DEMAND			
LINE NO.	ITEM	VALUE	LINE NO.	ITEM	VALUE	LINE NO.	ITEM	VALUE
1.	No. Emp. Full Time (incl. Superintendent)	1	5.	Maint. Plant Payroll (\$)	19,173	1.	Load Factor (%)	0.51%
2.	No. Emp. Part Time	1	6.	Other Accounts Plant Payroll (\$)		2.	Plant Factor (%)	2.38%
3.	Total Emp. - Hrs. Worked	5,546				3.	Running Plant Capacity Factor (%)	57.16%
4.	Oper. Plant Payroll (\$)	130,447	7.	TOTAL Plant Payroll (\$)	149,620	4.	15 Min. Gross Max. Demand (kW)	0
						5.	Indicated Gross Max. Demand (kW)	41,931

SECTION D. COST OF NET ENERGY GENERATED						
LINE NO.	PRODUCTION EXPENSE	ACCOUNT NUMBER	AMOUNT (\$) (a)	MILLS/NET kWh (b)	\$/10 ⁶ BTU (c)	
1.	Operation, Supervision and Engineering	546	15,086			
2.	Fuel, Oil	547.1	396,356			21.45
3.	Fuel, Gas	547.2	0			0.00
4.	Fuel, Other	547.3	0			0.00
5.	Energy for Compressed Air	547.4	0	0.00		
6.	FUEL SUBTOTAL (2 thru 5)	547	396,356	263.42	21.45	
7.	Generation Expenses	548	79,447			
8.	Miscellaneous Other Power Generation Expenses	549	47,296			
9.	Rents	550	0			
10.	NON-FUEL SUBTOTAL (1 + 7 thru 9)		141,829	94.26		
11.	OPERATION EXPENSE (6 + 10)		538,185	357.69		
12.	Maintenance, Supervision and Engineering	551	77			
13.	Maintenance of Structures	552	0			
14.	Maintenance of Generating and Electric Plant	553	25,440			
15.	Maintenance of Miscellaneous Other Power Generating Plant	554	0			
16.	MAINTENANCE EXPENSE (12 thru 15)		25,517			16.95
17.	TOTAL PRODUCTION EXPENSE (11 + 16)		563,702	374.65		
18.	Depreciation	553,512	21,934			
19.	Interest	554,513	44,695			
20.	TOTAL FIXED COST (18 + 19)		66,629			44.28
21.	POWER COST (17 + 20)		630,331	418.93		

REMARKS (including Unscheduled Outages)

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE OPERATING REPORT - INTERNAL COMBUSTION PLANT			BORROWER DESIGNATION				MI0043			
			PLANT				Detour			
			PERIOD ENDED				December, 2008			

INSTRUCTIONS - Submit an original and two copies to RUS or file electronically. For detailed instructions, see Bulletin 1717B-3. *This data will be used to review your financial situation. Your response is required (7 U.S.C. 901 et. seq.) and may be confidential.*

SECTION A. INTERNAL COMBUSTION GENERATING UNITS												
LINE NO.	UNIT NO.	SIZE (kW)	FUEL CONSUMPTION				OPERATING HOURS				GROSS GENERATION (MWh)	BTU PER kWh
			OIL (1000 Gals.)	GAS (1000 C.F.)	OTHER	TOTAL	IN SERVICE	ON STANDBY	OUT OF SERVICE			
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	Sche. (i)	Unsche. (j)	(k)	(l)
1.	1	3,000	26.90	0.00	0.00		174	6,234	0	2,376	362	
2.	2	3,000	65.40	0.00	0.00		471	8,313	0	0	778	
3.												
4.												
5.												
6.	TOTAL	6,000	92.30	0.00	0.00		645	14,547	0	2,376	1,140	
7.	Average BTU		138,992.41				STATION SERVICE (MWh)				269.20	
8.	Total BTU (10 ⁶)		12,829.00			12,829.00	NET GENERATION (MWh)				870.80	14,732.42
9.	Total Del. Cost (\$)		281,614.00				STATION SERVICE % OF GROSS				23.61	

SECTION B. LABOR REPORT					SECTION C. FACTORS & MAXIMUM DEMAND			
LINE NO.	ITEM	VALUE	LINE NO.	ITEM	VALUE	LINE NO.	ITEM	VALUE
1.	No. Emp. Full Time (incl. Superintendent)	0	5.	Maint. Plant Payroll (\$)	30,731	1.	Load Factor (%)	0.31%
2.	No. Emp. Part Time	1	6.	Other Accounts Plant Payroll (\$)	0	2.	Plant Factor (%)	2.16%
3.	Total Emp. - Hrs. Worked	2,914				3.	Running Plant Capacity Factor (%)	58.91%
4.	Oper. Plant Payroll (\$)	47,741	7.	TOTAL Plant Payroll (\$)	78,472	4.	15 Min. Gross Max. Demand (kW)	0
						5.	Indicated Gross Max. Demand (kW)	41,931

SECTION D. COST OF NET ENERGY GENERATED					
LINE NO.	PRODUCTION EXPENSE	ACCOUNT NUMBER	AMOUNT (\$)	MILLS/NET kWh	\$/10 ⁶ BTU
			(a)	(b)	(c)
1.	Operation, Supervision and Engineering	546	3,198		
2.	Fuel, Oil	547.1	281,614		
3.	Fuel, Gas	547.2	0		
4.	Fuel, Other	547.3	0		
5.	Energy for Compressed Air	547.4	0	0.00	
6.	FUEL SUBTOTAL (2 thru 5)	547	281,614	323.39	21.95
7.	Generation Expenses	548	49,343		
8.	Miscellaneous Other Power Generation Expenses	549	3,044		
9.	Rents	550	0		
10.	NON-FUEL SUBTOTAL (1 + 7 thru 9)		55,585		
11.	OPERATION EXPENSE (6 + 10)		337,199	387.22	
12.	Maintenance, Supervision and Engineering	551	0		
13.	Maintenance of Structures	552	0		
14.	Maintenance of Generating and Electric Plant	553	118,646		
15.	Maintenance of Miscellaneous Other Power Generating Plant	554	0		
16.	MAINTENANCE EXPENSE (12 thru 15)		118,646	136.24	
17.	TOTAL PRODUCTION EXPENSE (11 + 16)		455,845	523.47	
18.	Depreciation	553.512	44,545		
19.	Interest	554.513	44,695		
20.	TOTAL FIXED COST (18 + 19)		89,240		
21.	POWER COST (17 + 20)		545,085	625.95	

REMARKS (including Unscheduled Outages)

**MICHIGAN 43 CHIPPEWA
CLOVERLAND ELECTRIC COOPERATIVE, INC.**

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

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CLOVERLAND ELECTRIC COOPERATIVE, INC.
BOARD OF DIRECTORS
DECEMBER 31, 2008

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

General Manager

Daniel Dasho



Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheets of Cloverland Electric Cooperative, Inc. and subsidiary as of December 31, 2008 and 2007, 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 financial statements based on our audit.

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, 2008 and 2007, 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 April 1, 2009, 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.

April 1, 2009

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

ASSETS	2008	2007
ELECTRIC PLANT AND EQUIPMENT:		
In service – at cost	\$ 70,385,323	\$ 68,933,783
Construction work in progress	752,322	375,132
	71,137,645	69,308,915
SUBTOTAL		
Less accumulated depreciation	25,192,257	23,701,711
	45,945,388	45,607,204
NET ELECTRIC PLANT		
 OTHER ASSETS AND INVESTMENTS:		
Investments in associated organizations	7,339,527	6,005,330
Temporarily restricted investments	237	237
Goodwill, net of amortization	125,590	125,590
	7,465,354	6,131,157
TOTAL OTHER ASSETS AND INVESTMENTS		
 CURRENT ASSETS:		
Cash and temporary cash investments	3,741,596	910,135
Accounts receivable, less allowance for doubtful accounts of \$91,000 and \$69,000 in 2008 and 2007, respectively	2,938,651	3,515,971
Refundable power costs	317,966	1,012,212
Materials and supplies	1,037,284	1,212,987
Prepaid expenses and other current assets	172,758	413,820
Prepaid federal income tax	23,500	
	8,231,755	7,065,125
TOTAL CURRENT ASSETS		
DEFERRED DEBITS	23,000	23,000
TOTAL ASSETS	\$ 61,665,497	\$ 58,826,486

The accompanying notes are an integral part of these statements.

EQUITIES AND LIABILITIES	<u>2008</u>	<u>2007</u>
EQUITIES:		
Memberships	\$ 79,455	\$ 77,480
Patronage capital	19,125,592	18,343,912
Other equities	<u>1,204,063</u>	<u>1,156,803</u>
TOTAL EQUITIES	<u>20,409,110</u>	<u>19,578,195</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES:		
Mortgage notes to Rural Utilities Service	26,485,448	19,430,831
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	9,106,914	9,854,692
Vehicle loan-Soo Co-op Credit Union	25,030	
Mortgage note to Soo Co-op Credit Union		226,482
Mortgage note to Central Savings Bank	<u>218,972</u>	
TOTAL LONG-TERM DEBT	<u>35,836,364</u>	<u>29,512,005</u>
OTHER NON-CURRENT LIABILITIES		
Accrued Postretirement benefits other than pensions and deferred compensation	1,221,022	1,293,775
Deferred income tax liability	<u>23,939</u>	<u>32,682</u>
TOTAL OTHER NON-CURRENT LIABILITIES	<u>1,244,961</u>	<u>1,326,457</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	1,226,637	1,234,875
Lines of credit payable		4,250,000
Accounts payable:		
Purchased power	1,180,074	1,078,050
Other	354,145	337,297
Customer deposits and prepayments	176,175	180,076
Accrued interest	127,373	136,991
Accrued vacation and sick pay	381,024	411,613
Accrued taxes and other current liabilities	<u>729,397</u>	<u>780,690</u>
TOTAL CURRENT LIABILITIES	<u>4,174,825</u>	<u>8,409,592</u>
DEFERRED CREDITS	<u>237</u>	<u>237</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 61,665,497</u>	<u>\$ 58,826,486</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	% Of Operating Revenue
OPERATING REVENUES	\$ 22,736,829	100.00
OPERATING EXPENSES:		
Cost of power – produced	1,019,547	4.48
Cost of power – purchased	10,624,214	46.73
Cost of goods sold	854,500	3.76
Transmission	487	0.01
Distribution – operations	895,266	3.94
Distribution – maintenance	1,660,530	7.30
Customer accounts	741,638	3.26
Customer service and information	47,025	0.21
Sales expense	86,232	0.38
Administrative and general	2,647,774	11.64
Depreciation	1,906,737	8.38
Taxes – property	701,584	3.09
Taxes – other	30,487	0.13
TOTAL OPERATING EXPENSES	21,216,021	93.31
OPERATING MARGINS BEFORE FIXED CHARGES	1,520,808	6.69
FIXED CHARGES:		
Interest on long-term debt	1,778,577	7.82
Other interest	119,159	0.53
TOTAL FIXED CHARGES	1,897,736	8.35
OPERATING MARGINS AFTER FIXED CHARGES	(376,928)	(1.66)
CAPITAL CREDITS	159,467	0.70
NET OPERATING MARGINS	(217,461)	(0.96)
NON-OPERATING MARGINS:		
Interest	100,391	0.44
Other	1,497,027	6.59
TOTAL NON-OPERATING MARGINS	1,597,418	7.03
NET MARGINS	\$ 1,379,957	6.07

The accompanying notes are an integral part of these statements.

2007	% Of Operating Revenue	Increase (Decrease)
\$ 22,337,000	100.00	\$ 399,829
571,026	2.56	448,521
11,103,158	49.71	(478,944)
707,938	3.17	146,562
1,097	0.01	(610)
750,692	3.36	144,574
1,601,723	7.17	58,807
676,535	3.03	65,103
32,202	0.14	14,823
70,867	0.32	15,365
2,236,025	10.01	411,749
1,826,790	8.18	79,947
688,921	3.08	12,663
169,171	0.75	(138,684)
20,436,145	91.49	779,876
1,900,855	8.51	(380,047)
1,628,605	7.29	149,972
235,013	1.05	(115,854)
1,863,618	8.34	34,118
37,237	0.17	(414,165)
139,188	0.62	20,279
176,425	0.79	(393,886)
93,416	0.42	6,975
951,299	4.26	545,728
1,044,715	4.68	552,703
\$ 1,221,140	5.47	\$ 158,817

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATED STATEMENT OF EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>Memberships</u>	<u>Patronage capital</u>	<u>Other equities</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, January 1, 2007	\$ 77,120	\$ 17,796,509	\$ 1,576,777	\$	\$ 19,450,406
Adjustment for adoption of SFAS No. 158				(590,447)	(590,447)
Memberships issued	3,440				3,440
Other equity transactions	(3,080)		96,735		93,655
Retirement of capital credits		(599,999)			(599,999)
Current year margins		1,147,402	73,738		1,221,140
Balance, December 31, 2007	77,480	18,343,912	1,747,250	(590,447)	19,578,195
Adjustment for adoption of SFAS No. 158				48,472	48,472
Memberships issued	1,975				1,975
Other equity transactions		(33)	65,548		65,515
Retirement of capital credits		(665,004)			(665,004)
Current year margins		1,446,717	(66,760)		1,379,957
Balance, December 31, 2008	<u>\$ 79,455</u>	<u>\$ 19,125,592</u>	<u>\$ 1,746,038</u>	<u>\$ (541,975)</u>	<u>\$ 20,409,110</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, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 23,092,657	\$ 21,557,408
Cash paid to suppliers and employees	(17,443,889)	(17,811,532)
Rent income	28,891	30,854
Interest received	100,937	93,446
Interest paid	(1,907,354)	(1,783,274)
Taxes paid	(821,156)	(686,812)
	<u>3,050,086</u>	<u>1,400,090</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of plant	(2,330,486)	(2,505,230)
Plant removal costs	(89,065)	(222,658)
Net proceeds from sale of plant	36,131	13,593
(Increase) decrease in:		
Materials inventory	178,732	52,824
Investments in associated organizations	301,107	1,055,543
	<u>(1,903,581)</u>	<u>(1,605,928)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of patronage capital credits	(448,690)	(381,708)
Donated capital	65,548	96,735
Loan advances	7,533,232	2,250,000
Payments on debt	(5,467,109)	(1,172,749)
Memberships issued, net	1,975	360
	<u>1,684,956</u>	<u>792,638</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,831,461	586,800
CASH AND TEMPORARY CASH INVESTMENTS, beginning	910,135	323,335
CASH AND TEMPORARY CASH INVESTMENTS, ending	\$ 3,741,596	\$ 910,135

The accompanying notes are an integral part of these statements.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Continued)

	2008	2007
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net margins	\$ 1,379,957	\$ 1,221,140
Adjustments to reconcile net margins to net cash provided by		
Operating activities:		
Depreciation and amortization	2,045,373	1,968,947
Capital credits	(159,467)	(139,188)
Patronage capital refunds applied to accounts written off	(216,314)	(218,292)
Loss (Gain) on the sale of fixed assets	66	(31,057)
Income from investment	(1,476,074)	(929,532)
(Increase) decrease in:		
Customer and other accounts receivable	577,320	(558,476)
Current & accrued assets - other	217,562	(200,605)
Inventory of subsidiary	(3,029)	(372)
Refundable power costs	694,246	(97,281)
Increase (decrease) in:		
Accounts payable	118,872	258,987
Refunds payable to members		
Accrued interest payable	(9,618)	80,345
Current and accrued liabilities – other	(94,527)	246
Accrued postretirement benefits other than pensions	(24,281)	45,228
Total adjustments	1,670,129	178,950
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,050,086	\$ 1,400,090

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 generally exempt from income tax under Section 501(c)(12) of the United States Internal Revenue Code. Cloverland is subject to the Single 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.

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.

Recently Adopted Accounting Pronouncement

In September 2006, The Financial Accounting Standards Board issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (an amendment of SFAS Nos. 87, 88, 106 and 132R). SFAS No. 158 requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligation that determine its funded status as of the end of the employers fiscal year; and (c) recognize changes in the funded status of a defined benefit pension plan in the year in which the changes occur. These changes are to be reported in comprehensive income of a business entity. The provisions of SFAS No. 158 for entities without publicly traded equity securities are effective for fiscal years ending after June 15, 2007.

Principles of Consolidation

The consolidated financial statements for 2008 and 2007 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.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED 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.

Consumer Energy Prepayments and Unbilled Revenues

Seasonal account billings are recognized monthly based upon estimated kilowatt hours used and a pro rata share of service charges on a straight-line basis. There were no unbilled revenues for 2008 and 2007.

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.

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 2008 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, 2008 and 2007 consisted of:

	<u>2008</u>	<u>2007</u>
Intangible plant	\$ 252	\$ 252
Distribution plant	58,659,972	57,117,783
Generation plant	3,496,989	3,496,989
Transmission plant	755,476	755,476
General plant	<u>7,472,634</u>	<u>7,563,283</u>
	70,385,323	68,933,783
Construction work in progress	<u>752,322</u>	<u>375,132</u>
TOTAL	<u>\$ 71,137,645</u>	<u>\$ 69,308,915</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, 2008 and 2007, 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, 2008 and 2007:

	<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, 2008 and 2007:

	2008	2007
Charged to:		
Depreciation and amortization expense	\$ 1,906,737	\$ 1,826,790
Other expenses	137,895	142,157
Total Expensed	2,044,632	1,968,947
Capitalized	92,278	97,721
TOTAL DEPRECIATION	\$ 2,136,910	\$ 2,066,668

NOTE 5: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations as of December 31, 2008 and 2007 were as follows:

	2008	2007
National Rural Utilities Cooperative		
Finance Corporation:		
Capital term and zero term certificates maturing through 2080 interest rates between 0% and 5%	\$ 840,952	\$ 850,741
Long-term certificates maturing through 2030 at an interest rate of 3%	48,000	48,000
Patronage capital credits	222,455	220,994
American Transmission Company, LLC	5,658,370	4,315,228
Federated Rural Electric Ins. Co.	158,765	148,428
Deferred compensation funds	160,359	227,154
Other	250,626	194,785
TOTAL	\$ 7,339,527	\$ 6,005,330

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, 2008 and 2007 is \$5,658,370 and \$4,315,228, 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, 2008 and 2007 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, 2008 and 2007:

	2008	2007
Construction advances	\$ 237	\$ 237
Refundable power costs		
TOTAL	237	237
Amount of required restriction in excess of available CFC investment		
TOTAL FUNDS RESTRICTED	\$ 237	\$ 237

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	\$ 377,080
Uninsured	3,435,478
Total deposits at banks	3,812,558
In transit items	(76,131)
	3,736,427
Working funds	1,490
Money market funds and special construction	3,679
Total Cash	\$ 3,741,596

NOTE 9: PATRONAGE CAPITAL

Patronage capital balances as of December 31, 2008 and 2007 consisted of:

	2008	2007
Assignable	\$ 1,446,717	\$ 1,147,402
Assigned	28,829,701	27,682,299
	30,276,418	28,829,701
Less retirements to date	11,150,826	10,485,789
Balance	\$ 19,125,592	\$ 18,343,912

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 33.09% and 33.28% of the total assets at December 31, 2008 and 2007, 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 1988, 1989, and 2007 and retirements to deceased patrons, in the amounts of \$665,004 and \$599,999 were paid in the years ended December 31, 2008 and 2007, respectively.

NOTE 10: OTHER EQUITIES

Other equities consisted of the following for the years ending December 31, 2008 and 2007:

	2008	2007
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	415,653	350,105
Non-assignable margins	434,334	501,094
TOTAL	\$ 1,746,038	\$ 1,747,250

NOTE 11: MORTGAGE NOTES

Long-term debt is composed of 3.75% to 8.10% mortgage notes payable to the Rural Utilities Service (RUS) of the United States of America and the National Rural Utilities Cooperative Finance Corporation (CFC). All 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 August 2009 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:

	2008	2007
Rural Utilities Service notes bearing interest at 3.75% to 5.23% per annum, payable in monthly and quarterly installments to 2042.	\$ 26,935,449	\$ 19,883,331
National Rural Utilities Cooperation Finance Corporation notes bearing interest at 4.1% to 8.10% per annum, payable in quarterly installments to 2034.	5,453,794	6,026,431
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.	4,413,119	4,593,761
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.	229,501	
Vehicle loan-Bank. Monthly installment payments of \$627, including interest at 5.0%, until August 1, 2013. Secured by the vehicle purchased.	31,138	
Construction loan – Bank. Interest at 5%. Monthly installments of \$2,404 to November 30, 2008, with balance due December 30, 2008. Secured by land and building.		243,357
	37,063,001	30,746,880
Less current maturities	1,226,637	1,234,875
TOTAL LONG-TERM DEBT	\$ 35,836,364	\$ 29,512,005

Unadvanced loan funds were available to Cloverland on the loan commitments from RUS in the amount of \$2,700,000 and \$0 for 2008 and 2007, respectively. Unadvanced loan funds were available to Cloverland on the loan commitments from CFC in the amount of \$-0- for 2008 and 2007, respectively.

There was a CFC Power Vision loan available in the amount of \$8,600,000 for the year ended 2008 and 2007, respectively.

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

	Total	
2009	\$	1,226,637
2010		1,266,702
2011		1,504,740
2012		1,261,895
2013		1,294,165

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 Cooperative did not meet these ratios for 2008, but did meet them for 2007. The Cooperative has obtained a waiver of these requirements for the current 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 2008 and 2007, respectively. The Cooperative had an outstanding balance of \$-0- for 2008 and 2007. Interest at December 31, 2008 was charged at 5.00%

The Cooperative has available a line of credit with CoBank in the amount of \$10,000,000 for 2008. The Cooperative had an outstanding balance of \$-0- for 2008 and \$4,250,000 in 2007. Interest at December 31, 2008 was charged at 4.2%.

Lighthouse.Net had available a \$225,000 line of credit with National Cooperative Services Corporation (NCSC) for 2008 with a variable interest rate. The line of credit matures in February 2009. Lighthouse.Net has an outstanding balance of \$-0- at December 31, 2008 and 2007, respectively. The agreement provides that Cloverland Electric Cooperative unconditionally guarantee all amounts due on the loan.

NOTE 13: DEFERRED DEBITS AND CREDITS

The balance of deferred credits at December 31, 2008 consists of a land contract receivable from the sale of vacant property to a governmental unit. The contract is to be paid to the Cooperative over ten years. The balance was \$23,000 at December 31, 2008.

The balance of deferred credits at December 31, 2008 and 2007 consists of consumers deposits for memberships, connection fees and aid to construction. The balances for these amounts were \$237 and \$237 for 2008 and 2007, respectively.

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 \$274,565 and \$280,410 in 2008 and 2007, respectively. Contributions to the savings program, which are based on a percentage of the employees' compensation, were \$189,401 in 2008 and \$202,148 in 2007, respectively.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15: NON-CASH INVESTING AND FINANCING ACTIVITIES

Non-cash investing activities for 2008 and 2007 were as follows:

	2008	2007
Patronage capital allocated	\$ 140,257	\$ 122,769
Materials salvaged from inventory	14,649	40,904
Capital credits applied to bad debt	216,314	218,292
Capitalized depreciation	92,278	97,721

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	2008	2007
Service Cost	\$	\$
Interest Cost	79,997	74,663
Expected return on Plan assets		
Amortization of transition obligation	24,219	24,219
Recognition of net Gain/loss	24,253	13,656
Net periodic post-retirement benefit cost	\$ 128,469	\$ 122,538

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

Change in Benefit Obligation	2008	2007
Benefit obligation at beginning of year	\$ 1,066,621	\$ 826,877
Service cost		
Interest cost	79,997	78,525
Plan amendment		
Benefits paid	(85,954)	(86,635)
Actuarial gain		247,854
Benefit obligation at end of year	\$ 1,060,664	\$ 1,066,621

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: POST-RETIREMENT BENEFITS OTHER THAN PENSIONS - continued

	2008	2007
Change in Plan Assets		
Fair value of plan assets at beginning of year		
Actual return on plan assets		
Employer contributions	\$ 85,594	\$ 86,635
Benefits paid	(85,594)	(86,635)
Fair value of plan assets at end of year	\$ -0-	\$ -0-
 Recognized Benefit Obligation	 \$ (1,060,664)	 \$ (1,066,621)
 Amounts Recognized in Accumulated Other Comprehensive Loss - Beginning	 \$ 590,447	 \$ -0-
Net actuarial gains		
Transition obligation	(24,219)	169,526
Net current year loss	(24,253)	420,921
 Amounts Recognized in Accumulated Other Comprehensive Loss	 \$ 541,975	 \$ 590,447

For measurement purposes an 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008 and 2007 the rate was assumed to decrease gradually by 0.5% per year to an ultimate rate of 5.0% per annum. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by 1 percentage point in each year would increase the accumulated postretirement benefit obligation \$104,238 and the aggregate of the service and interest cost components of the net periodic benefit cost by \$7,297.

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

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, 2008.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17: 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 18: INCOME TAXES

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

	<u>2008</u>	<u>2007</u>
Deferred tax asset arising from:		
Timing difference	\$ 11,773	\$ 6,840
Deferred tax liability arising from:		
Accumulated depreciation for tax purposes in excess of book	<u>(35,712)</u>	<u>(39,522)</u>
Net deferred tax asset (liability)	<u>\$ (23,939)</u>	<u>\$ (32,682)</u>

The detail of income tax expense is as follows:

	<u>2008</u>	<u>2007</u>
Current operations	\$ (14,537)	\$ 23,161
Deferred taxes	<u>(8,707)</u>	<u>5,907</u>
Total income tax expense	<u>\$ (23,244)</u>	<u>\$ 29,068</u>

ADDITIONAL INFORMATION

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2008

	Cloverland Electric Cooperative	Lighthouse.net	Eliminations	Consolidated Total
ASSETS				
ELECTRIC PLANT:				
In service – at cost	\$ 69,176,973	\$ 1,208,350	\$	\$ 70,385,323
Construction work in progress	716,836	35,486		752,322
	69,893,809	1,243,836		71,137,645
Less accumulated depreciation	24,683,634	508,623		25,192,257
NET ELECTRIC PLANT	45,210,175	735,213		45,945,388
OTHER ASSETS AND INVESTMENTS:				
Investments in associated organizations	7,317,540	21,987		7,339,527
Investment in subsidiary	659,334		(659,334)	
Receivables from subsidiary	3,295		(3,295)	
Temporarily restricted investments	237			237
Goodwill, net of amortization		125,590		125,590
TOTAL OTHER ASSETS AND INVESTMENTS	7,980,406	147,577	(662,629)	7,465,354
CURRENT ASSETS:				
Cash and temporary cash investments	3,622,395	119,201		3,741,596
Accounts receivable, less allowance for doubtful accounts of approximately \$91,000	2,904,532	34,119		2,938,651
Refundable power costs	317,966			317,966
Materials and supplies	988,764	48,520		1,037,284
Prepaid expenses and other current assets	167,099	5,659		172,758
Prepaid Federal income tax		23,500		23,500
TOTAL CURRENT ASSETS	8,000,756	230,999		8,231,755
DEFERRED DEBITS	23,000			23,000
TOTAL ASSETS	\$ 61,214,337	\$ 1,113,789	\$ (662,629)	\$ 61,665,497

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2008
(continued)

	Cloverland Electric Cooperative	Lighthouse.net	Eliminations	Consolidated Total
EQUITIES:				
Memberships	\$ 79,455	\$	\$	\$ 79,455
Patronage capital	19,125,592			19,125,592
Other equities	1,204,063	659,334	(659,334)	1,204,063
TOTAL EQUITIES	20,409,110	659,334	(659,334)	20,409,110
LONG-TERM DEBT, NET OF CURRENT MATURITIES:				
Mortgage notes to Rural Utilities Service	26,485,448			26,485,448
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	9,106,914			9,106,914
Bank loan-Soo Co-op Credit Union		25,030		25,030
Mortgage note to Central Savings Bank		218,972		218,972
TOTAL LONG-TERM DEBT	35,592,362	244,002		35,836,364
OTHER NON-CURRENT LIABILITIES				
Accrued Postretirement benefits other than pensions and deferred compensation	1,221,022			1,221,022
Deferred income tax liability		23,939		23,939
TOTAL OTHER NON-CURRENT LIABILITIES	1,221,022	23,939		1,244,961
CURRENT LIABILITIES:				
Current maturities of long-term debt	1,210,000	16,637		1,226,637
Accounts payable:				
Purchased power	1,180,074			1,180,074
Other	293,441	60,704		354,145
Intercompany		3,295	(3,295)	
Customer deposits and prepayments	90,957	85,218		176,175
Accrued interest	127,373			127,373
Accrued vacation and sick pay	381,024			381,024
Accrued taxes and other current liabilities	708,737	20,660		729,397
TOTAL CURRENT LIABILITIES	3,991,606	186,514	(3,295)	4,174,825
DEFERRED CREDITS	237			237
TOTAL EQUITIES AND LIABILITIES	\$ 61,214,337	\$ 1,113,789	\$ (662,629)	\$ 61,665,497

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATING STATEMENT OF REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2008

	Cloverland Electric Cooperative	Lighthouse.net	Eliminations	Consolidated Total
OPERATING REVENUES	\$ 21,280,154	\$ 1,456,675	\$	\$ 22,736,829
OPERATING EXPENSES:				
Cost of power-produced	1,019,547			1,019,547
Cost of power—purchased	10,624,214			10,624,214
Cost of goods sold		854,500		854,500
Transmission	487			487
Distribution – operations	895,266			895,266
Distribution – maintenance	1,660,530			1,660,530
Customer accounts	673,169	68,469		741,638
Customer service and information expense	47,025			47,025
Sales expense	86,232			86,232
Administrative and general	2,130,765	524,947	(7,938)	2,647,774
Depreciation and amortization	1,800,388	106,349		1,906,737
Taxes – property	674,235	27,349		701,584
Taxes – other	51,590	(21,103)		30,487
TOTAL OPERATING EXPENSES	19,663,448	1,560,511	(7,938)	21,216,021
OPERATING MARGINS BEFORE FIXED CHARGES	1,616,706	(103,836)	7,938	1,520,808
FIXED CHARGES:				
Interest on long-term debt	1,763,084	15,493		1,778,577
Other interest	119,159			119,159
TOTAL FIXED CHARGES	1,882,243	15,493		1,897,736
OPERATING MARGINS AFTER FIXED CHARGES	(265,537)	(119,329)	7,938	(376,928)
CAPITAL CREDITS	140,257	19,210		159,467
NET OPERATING MARGINS	(125,280)	(100,119)	7,938	(217,461)
NON-OPERATING MARGINS:				
Interest Income	95,923	4,468		100,391
Other	1,476,074	28,891	(7,938)	1,497,027
Income from subsidiary	(66,760)		66,760	
TOTAL NON-OPERATING MARGINS	1,505,237	33,359	58,822	1,597,418
NET MARGINS	\$ 1,379,957	\$ (66,760)	\$ 66,760	\$ 1,379,957



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

April 1, 2009

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, 2008, and have issued our report thereon dated April 1, 2009. 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, Inc.'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, Inc. internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cloverland Electric Cooperative, Inc. internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Cloverland Electric Cooperative, Inc. ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Cloverland Electric Cooperative, Inc. financial statements that is more than inconsequential will not be prevented or detected by Cloverland Electric Cooperative, Inc. internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Cloverland Electric Cooperative, Inc. internal control.

Our consideration of internal control over financial reporting 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 financial reporting 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, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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, 2008 AND 2007**

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**CLOVERLAND ELECTRIC COOPERATIVE, INC.
BOARD OF DIRECTORS
DECEMBER 31, 2008**

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

General Manager

Daniel Dasho



Independent Auditor's Report

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

We have audited the accompanying balance sheets of Cloverland Electric Cooperative, Inc. as of December 31, 2008 and 2007, 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 \$451,160 and \$482,379 for the years ended December 31, 2008 and 2007, 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, 2008 and 2007, 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 April 1, 2009, 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.

April 1, 2009

CLOVERLAND ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
ELECTRIC PLANT:		
In service – at cost	\$ 69,176,973	\$ 67,513,231
Construction work in progress	716,836	375,132
	69,893,809	67,888,363
SUBTOTAL		
Less accumulated depreciation	24,683,634	22,972,633
	45,210,175	44,915,730
NET ELECTRIC PLANT		
OTHER ASSETS AND INVESTMENTS:		
Investments in associated organizations	7,317,540	5,994,320
Investment in subsidiary	659,334	726,094
Accounts receivable from subsidiary	3,295	2,580
Temporarily restricted investments	237	237
	7,980,406	6,723,231
TOTAL OTHER ASSETS AND INVESTMENTS		
CURRENT ASSETS:		
Cash and temporary cash investments	3,622,395	600,131
Accounts receivable, less allowance for doubtful accounts of \$53,000 in 2008 and 2007, respectively	2,904,532	3,499,034
Refundable power costs	317,966	1,012,212
Materials and supplies	988,764	1,167,496
Prepaid expenses and other current assets	167,099	403,273
	8,000,756	6,682,146
TOTAL CURRENT ASSETS		
DEFERRED DEBITS	23,000	23,000
TOTAL ASSETS	\$ 61,214,337	\$ 58,344,107

The accompanying notes are an integral part of these statements.

	<u>2008</u>	<u>2007</u>
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	\$ 79,455	\$ 77,480
Patronage capital	19,125,592	18,343,912
Other equities	<u>1,204,063</u>	<u>1,156,803</u>
TOTAL EQUITIES	<u>20,409,110</u>	<u>19,578,195</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES:		
Mortgage notes to Rural Utilities Service	26,485,448	19,430,831
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	<u>9,106,914</u>	<u>9,854,692</u>
TOTAL LONG-TERM DEBT	<u>35,592,362</u>	<u>29,285,523</u>
OTHER NON-CURRENT LIABILITIES		
Accrued Postretirement benefits other than pensions and deferred Compensation	<u>1,221,022</u>	<u>1,293,775</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	1,210,000	1,218,000
Line of credit payable		4,250,000
Accounts payable:		
Purchased power	1,180,074	1,078,050
Other	293,441	272,927
Refunds payable to members		
Customer deposits and prepayments	90,957	95,554
Accrued interest	127,373	136,991
Accrued vacation and sick pay	381,024	411,613
Accrued taxes and other current liabilities	<u>708,737</u>	<u>723,242</u>
TOTAL CURRENT LIABILITIES	<u>3,991,606</u>	<u>8,186,377</u>
DEFERRED CREDITS	<u>237</u>	<u>237</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 61,214,337</u>	<u>\$ 58,344,107</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
STATEMENTS OF REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	% Of Operating Revenue
OPERATING REVENUES	\$ 21,280,154	100.00
OPERATING EXPENSES:		
Cost of power – produced	1,019,547	4.79
Cost of power – purchased	10,624,214	49.93
Transmission	487	0.00
Distribution – operations	895,266	4.21
Distribution – maintenance	1,660,530	7.80
Customer accounts	673,169	3.16
Customer service and information	47,025	0.22
Sales expense	86,232	0.41
Administrative and general	2,130,765	10.01
Depreciation	1,800,388	8.46
Taxes – property	674,235	3.17
Taxes – other	51,590	0.24
TOTAL OPERATING EXPENSES	19,663,448	92.40
OPERATING MARGINS BEFORE FIXED CHARGES	1,616,706	7.60
FIXED CHARGES:		
Interest on long-term debt	1,763,084	8.29
Other interest	119,159	0.56
TOTAL FIXED CHARGES	1,882,243	8.85
OPERATING MARGINS AFTER FIXED CHARGES	(265,537)	(1.25)
CAPITAL CREDITS	140,257	0.66
NET OPERATING MARGINS	(125,280)	(0.59)
NON-OPERATING MARGINS:		
Interest	95,923	0.45
Other	1,476,074	6.94
Income from subsidiary	(66,760)	(0.32)
TOTAL NON-OPERATING MARGINS	1,505,237	7.07
NET MARGINS	\$ 1,379,957	6.48

The accompanying notes are an integral part of these statements.

2007	% Of Operating Revenue	Increase (Decrease)
\$ 20,843,372	100.00	\$ 436,782
571,026	2.74	448,521
11,103,158	53.27	(478,944)
1,097	0.01	(610)
750,692	3.60	144,574
1,601,723	7.68	58,807
631,262	3.03	41,907
32,202	0.15	14,823
70,867	0.34	15,365
1,723,492	8.27	407,273
1,720,119	8.25	80,269
668,525	3.21	5,710
111,775	0.54	(60,185)
<u>18,985,938</u>	<u>91.09</u>	<u>677,510</u>
<u>1,857,434</u>	<u>8.91</u>	<u>(240,728)</u>
1,613,300	7.74	149,784
235,013	1.13	(115,854)
<u>1,848,313</u>	<u>8.87</u>	<u>33,930</u>
9,121	0.04	(274,658)
<u>122,769</u>	<u>0.59</u>	<u>17,488</u>
<u>131,890</u>	<u>0.63</u>	<u>(257,170)</u>
85,980	0.41	9,943
929,532	4.46	546,542
73,738	0.35	(140,498)
<u>1,089,250</u>	<u>5.22</u>	<u>415,987</u>
<u>\$ 1,221,140</u>	<u>5.85</u>	<u>\$ 158,817</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
STATEMENT OF EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>Memberships</u>	<u>Patronage capital</u>	<u>Other equities</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, January 1, 2007	\$ 77,120	\$ 17,796,509	\$ 1,576,777	\$	\$ 19,450,406
Adjustment for adoption of SFAS No. 158				(590,447)	(590,447)
Memberships issued	3,440				3,440
Other equity transactions	(3,080)		96,735		93,655
Retirement of capital credits		(599,999)			(599,999)
Current year margins		1,147,402	73,738		1,221,140
Balance, December 31, 2007	77,480	18,343,912	1,747,250	(590,447)	19,578,195
Adjustment for adoption of SFAS No. 158				48,472	48,472
Memberships issued	1,975				1,975
Other equity transactions		(33)	65,548		65,515
Retirement of capital credits		(665,004)			(665,004)
Current year margins		1,446,717	(66,760)		1,379,957
Balance, December 31, 2008	<u>\$ 79,455</u>	<u>\$ 19,125,592</u>	<u>\$ 1,746,038</u>	<u>\$ (541,975)</u>	<u>\$ 20,409,110</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, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 21,660,406	\$ 20,061,033
Cash paid to suppliers and employees	(16,009,269)	(16,576,588)
Interest received	96,469	86,010
Interest paid	(1,891,861)	(1,767,969)
Taxes paid	(749,150)	(644,558)
	<u>3,106,595</u>	<u>1,157,928</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of plant	(2,169,960)	(2,430,700)
Plant removal costs	(89,065)	(222,658)
Net proceeds from sale of plant	36,131	13,593
(Increase) decrease in:		
Materials inventory	178,732	52,824
Investments in associated organizations	292,974	1,048,504
Receivables from wholly-owned subsidiary	(715)	(203)
	<u>(1,751,903)</u>	<u>(1,538,640)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of patronage capital credits	(448,690)	(381,708)
Donated capital	65,548	96,735
RUS and CFC loan advances	7,500,000	2,250,000
Payments on debt	(5,451,161)	(1,138,815)
Memberships issued, net	1,975	360
	<u>1,667,572</u>	<u>826,572</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,022,264	445,860
CASH AND TEMPORARY CASH INVESTMENTS, beginning	600,131	154,271
CASH AND TEMPORARY CASH INVESTMENTS, ending	\$ 3,622,395	\$ 600,131

The accompanying notes are an integral part of these statements.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Continued)

	2008	2007
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net margins	\$ 1,379,957	\$ 1,221,140
Adjustments to reconcile net margins to net cash provided by		
Operating activities:		
Depreciation and amortization	1,928,589	1,854,113
Capital credits	(140,257)	(122,769)
Patronage capital refunds applied to billings and bad debts	(216,314)	(218,292)
Loss (Gain) on the sale of fixed assets	66	(27,419)
Income on investment in wholly-owned subsidiary	66,760	(73,738)
Earnings on investment in associated organization	(1,476,074)	(929,532)
(Increase) decrease in:		
Customer and other accounts receivable	594,502	(573,560)
Current & accrued assets - other	236,173	(221,911)
Refundable power costs	694,246	(97,281)
Increase (decrease) in:		
Accounts payable, net of capital items	117,941	259,124
Refunds payable to members		
Accrued interest payable	(9,618)	80,345
Current and accrued liabilities – other	(45,095)	(37,520)
Accrued postretirement benefits other than pensions	(24,281)	45,228
Total adjustments	1,726,638	(63,212)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,106,595	\$ 1,157,928

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 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.

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.

Recently Adopted Accounting Pronouncement

In September 2006, The Financial Accounting Standards Board issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (an amendment of SFAS Nos. 87, 88, 106 and 132R). SFAS No. 158 requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligation that determine its funded status as of the end of the employers fiscal year; and (c) recognize changes in the funded status of a defined benefit pension plan in the year in which the changes occur. These changes are to be reported in comprehensive income of a business entity. The provisions of SFAS No. 158 for entities without publicly traded equity securities are effective for fiscal years ending after June 15, 2007.

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.

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.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Consumer Energy Prepayments and Unbilled Revenues

Seasonal account billings are recognized monthly based upon estimated kilowatt hours used and a pro rata share of service charges on a straight-line basis. There were no unbilled revenues for 2008 and 2007.

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.

Contributions in Aid of Construction

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

NOTE 2: RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2008 presentation.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3: ELECTRIC PLANT AND DEPRECIATION RATES AND PROCEDURES

Major classes of electric plant as of December 31, 2008 and 2007 consisted of:

	<u>2008</u>	<u>2007</u>
Intangible plant	\$ 252	\$ 252
Distribution plant	58,659,972	57,117,783
Generation plant	3,496,989	3,496,989
Transmission plant	755,476	755,476
General plant	<u>6,264,284</u>	<u>6,142,731</u>
	69,176,973	67,513,231
Construction work in progress	<u>716,836</u>	<u>375,132</u>
TOTAL	<u><u>\$ 69,893,809</u></u>	<u><u>\$ 67,888,363</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, 2008 and 2007, 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, 2008 and 2007:

	<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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Charged to:		
Depreciation and amortization expense	\$ 1,800,388	\$ 1,720,119
Other expenses	<u>128,201</u>	<u>133,994</u>
Total Expensed	1,928,589	1,854,113
Capitalized	<u>92,278</u>	<u>97,721</u>
TOTAL DEPRECIATION	<u><u>\$ 2,020,867</u></u>	<u><u>\$ 1,951,834</u></u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations as of December 31, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
National Rural Utilities Cooperative Finance Corporation:		
Capital term and zero term certificates maturing through 2080, interest rates between 0% and 5%	\$ 840,952	\$ 850,741
Long-term certificates maturing through 2030 at an interest rate of 3%	48,000	48,000
Patronage capital credits	222,455	220,994
American Transmission Company, LLC	5,658,370	4,315,228
Federated Rural Electric Ins. Co.	158,765	148,428
Deferred compensation funds	160,359	227,154
Other	<u>228,639</u>	<u>183,775</u>
 TOTAL	 <u>\$ 7,317,540</u>	 <u>\$ 5,994,320</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, 2007	<u>501,094</u>
Book value as of December 31, 2007	726,094
Undistributed loss during 2008	<u>(66,760)</u>
Book value as of December 31, 2008	<u>\$ 659,334</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, 2008 and 2007 is \$5,658,370 and \$4,315,228, 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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Construction advances	\$ 237	\$ 237
Refundable power costs		
TOTAL	<u>237</u>	<u>237</u>
Amount of required restriction in excess of available CFC investment	<u>-</u>	<u>-</u>
TOTAL FUNDS RESTRICTED	<u>\$ 237</u>	<u>\$ 237</u>

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	\$ 253,483
Uninsured	3,435,478
Total deposits at banks	3,688,961
In transit items	(71,485)
	3,617,476
Working funds	1,240
Money market funds and special construction	3,679
Total Cash	\$ 3,622,395

NOTE 7: PATRONAGE CAPITAL

Patronage capital balances as of December 31, 2008 and 2007 consisted of:

	2008	2007
Assignable	\$ 1,446,717	\$ 1,147,402
Assigned	28,829,701	27,682,299
	30,276,418	28,829,701
Less retirements to date	11,150,826	10,485,789
Balance	\$ 19,125,592	\$ 18,343,912

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 33.34% and 33.55% of the total assets at December 31, 2008 and 2007, 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 1988, 1989, and 2007 and retirements to deceased patrons, in the amounts of \$665,004 and \$599,999 were paid in the years ended December 31, 2008 and 2007, respectively.

NOTE 8: OTHER EQUITIES

Other equities consisted of the following for the years ending December 31, 2008 and 2007:

	2008	2007
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	415,653	350,105
Non-assignable margins	434,334	501,094
TOTAL	\$ 1,746,038	\$ 1,747,250

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 3.75% to 8.10% mortgage notes payable to the Rural Utilities Service (RUS) of the United States of America and the National Rural Utilities Cooperative Finance Corporation (CFC). All 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 August 2009 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:

	2008	2007
Rural Utilities Service notes bearing interest at 3.75% to 5.23% per annum, payable in monthly and quarterly installments through 2042.	\$ 26,935,449	\$ 19,883,331
National Rural Utilities Cooperation Finance Corporation notes bearing interest at 4.6% to 8.1% per annum, payable in quarterly installment to the year 2032.	5,453,794	6,026,431
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.	4,413,119	4,593,761
	36,802,362	30,503,523
Less current maturities	1,210,000	1,218,000
TOTAL LONG-TERM DEBT	\$ 35,592,362	\$ 29,285,523

Unadvanced loan funds were available to Cloverland on the loan commitments from RUS in the amount of \$2,700,000 and \$0 for 2008 and 2007, respectively. Unadvanced loan funds were available to Cloverland on the loan commitments from CFC in the amount of \$-0- for 2008 and 2007, respectively.

There was a CFC Power Vision loan available in the amount of \$8,600,000 for the year ended 2008 and 2007, respectively.

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

2009	\$ 1,210,000
2010	1,249,500
2011	1,289,800
2012	1,254,800
2013	1,289,400

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 2008, but did meet them for 2007. The Cooperative has obtained a waiver of these requirements for the current 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 2008 and 2007, respectively. The Cooperative had an outstanding balance of \$-0- for 2008 and 2007. Interest at December 31, 2008 was charged at 5.00%

The Cooperative has available a line of credit with CoBank in the amount of \$10,000,000 for 2008. The Cooperative had an outstanding balance of \$-0- for 2008 and \$4,250,000 in 2007. Interest at December 31, 2008 was charged at 4.2%.

NOTE 12: DEFERRED DEBITS AND CREDITS

The balance of deferred credits at December 31, 2008 consists of a land contract receivable from the sale of vacant property to a governmental unit. The contract is to be paid to the Cooperative over ten years. The balance was \$23,000 at December 31, 2008.

The balance of deferred credits at December 31, 2008 and 2007 consists of consumers deposits for memberships, connection fees and aid to construction. The balances for these amounts were \$237 and \$237 for 2008 and 2007, respectively.

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 \$274,565 and \$280,410 in 2008 and 2007, respectively. Contributions to the savings program, which are based on a percentage of the employees' compensation, were \$189,401 in 2008 and \$202,148 in 2007, respectively.

NOTE 14: NON-CASH INVESTING AND FINANCING ACTIVITIES

Non-cash investing activities for 2008 and 2007 were as follows:

	2008	2007
Patronage capital allocated	\$ 140,257	\$ 122,769
Materials salvaged from inventory	14,649	40,904
Capital credits applied to accounts receivable	216,314	218,292
Capitalized depreciation	92,278	97,721

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>2008</u>	<u>2007</u>
Service Cost	\$	\$
Interest Cost	79,997	74,663
Amortization of transition obligation	24,219	24,219
Recognition of net Gain/loss	<u>24,253</u>	<u>13,656</u>
Net periodic post-retirement benefit cost	<u>\$ 128,469</u>	<u>\$ 122,538</u>

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

Change in Benefit Obligation	<u>2008</u>	<u>2007</u>
Benefit obligation at beginning of year	\$ 1,066,621	\$ 826,877
Interest cost	79,997	78,525
Benefits paid	(85,954)	(86,635)
Actuarial gain	<u>247,854</u>	<u>247,854</u>
Benefit obligation at end of year	<u>\$ 1,060,664</u>	<u>\$ 1,066,621</u>
 Change in Plan Assets		
Fair value of plan assets at beginning of year		
Actual return on plan assets		
Employer contributions	\$ 85,594	\$ 86,635
Benefits paid	<u>(85,594)</u>	<u>(86,635)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 8: POST-RETIREMENT BENEFITS OTHER THAN PENSIONS - continued

	2008	2007
Recognized Benefit Obligation	<u>\$ (1,060,664)</u>	<u>\$ (1,066,621)</u>
Amounts Recognized in Accumulated Other Comprehensive Loss - Beginning	<u>\$ 590,447</u>	<u>\$ -0-</u>
Net actuarial gains		
Transition obligation	(24,219)	169,526
Net current year loss	<u>(24,253)</u>	<u>420,921</u>
Amounts Recognized in Accumulated Other Comprehensive Loss	<u>\$ 541,975</u>	<u>\$ 590,447</u>

For measurement purposes an 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008 and 2007 the rate was assumed to decrease gradually by 0.5% per year to an ultimate rate of 5.0% per annum. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by 1 percentage point in each year would increase the accumulated postretirement benefit obligation \$104,238 and the aggregate of the service and interest cost components of the net periodic benefit cost by \$7,297.

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

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, 2008.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 16: 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 17: 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, 2008 and 2007 of \$3,295 and \$2,580 respectively.



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

April 1, 2009

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, 2008, and have issued our report thereon dated April 1, 2009. 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, Inc.'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, Inc. internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cloverland Electric Cooperative, Inc. internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Cloverland Electric Cooperative, Inc. ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Cloverland Electric Cooperative, Inc. financial statements that is more than inconsequential will not be prevented or detected by Cloverland Electric Cooperative, Inc. internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Cloverland Electric Cooperative, Inc. internal control.

Our consideration of internal control over financial reporting 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 financial reporting 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, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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

LIGHTHOUSE.NET
REPORT ON FINANCIAL STATEMENTS
(With Supplementary Data)
YEARS ENDED DECEMBER 31, 2008 AND 2007

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LIGHTHOUSE.NET
DECEMBER 31, 2008

BOARD OF DIRECTORS

Daniel Dasho	President
Rodney Richards	Vice President
Carl R. Eagle	Secretary/Treasurer
Joyce Engelhardt	Director
William Elliott	Director
Ann Bourque	Director
Richard Newland	Director

OTHERS

Steven Mason	Manager
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Independent Auditor's Report

Board of Directors
Lighthouse.Net
Sault Ste. Marie, Michigan

We have audited the accompanying balance sheets of Lighthouse.Net as of December 31, 2008 and 2007 and the related statements of net income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of Lighthouse.Net's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial statements referred to above present fairly, in all material respects, the financial position of Lighthouse.Net as of December 31, 2008 and 2007 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Lighthouse.Net. 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.

April 1, 2009

LIGHTHOUSE.NET
BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash	\$ 119,201	\$ 310,004
Accounts receivable, less allowance for doubtful accounts of \$37,520 and \$16,394 for 2008 and 2007, respectively	34,119	16,937
Materials and supplies	48,520	45,491
Prepaid expenses	5,659	10,547
Prepaid Federal income tax	23,500	
TOTAL CURRENT ASSETS	230,999	382,979
PROPERTY AND EQUIPMENT, less accumulated depreciation	735,213	691,474
OTHER ASSETS:		
Investments in associated organization	21,987	11,010
Goodwill	125,590	125,590
TOTAL OTHER ASSETS	147,577	136,600
TOTAL ASSETS	\$ 1,113,789	\$ 1,211,053

The accompanying notes are an integral part of these statements.

	<u>2008</u>	<u>2007</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Current maturities	\$ 16,637	\$ 16,875
Accounts payable	60,704	64,370
Accounts payable – intercompany	3,295	2,580
Customer deposits	85,218	84,522
Accrued income taxes		24,875
Accrued liabilities	<u>20,660</u>	<u>32,573</u>
TOTAL CURRENT LIABILITIES	186,514	225,795
DEFERRED TAX LIABILITY	23,939	32,682
LONG-TERM DEBT, less current maturities	<u>244,002</u>	<u>226,482</u>
TOTAL LIABILITIES	<u>454,455</u>	<u>484,959</u>
STOCKHOLDER'S EQUITY:		
Common stock non-par 60,000 shares authorized, 10,000 shares issued and outstanding	30,000	30,000
Additional paid - in capital	195,000	195,000
Retained earnings	<u>434,334</u>	<u>501,094</u>
TOTAL STOCKHOLDER'S EQUITY	<u>659,334</u>	<u>726,094</u>
TOTAL LIABILITIES & STOCKHOLDER'S EQUITY	<u><u>\$ 1,113,789</u></u>	<u><u>\$ 1,211,053</u></u>

LIGHTHOUSE.NET
STATEMENTS OF NET INCOME AND
RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Net Sales	\$ 1,456,675	\$ 1,493,628
Cost of Sales	<u>854,500</u>	<u>707,938</u>
Gross Profit From Operations	602,175	785,690
General & Administration Expenses	<u>729,255</u>	<u>725,926</u>
Net Income From Operations	<u>(127,080)</u>	<u>59,764</u>
Other Income (Expenses):		
Rental income	28,891	30,854
Interest expense	(15,493)	(15,305)
Interest income	4,468	7,436
Income from associated organization	19,210	16,419
Gain (loss) on sale/disposal of fixed assets	<u>3,638</u>	<u>3,638</u>
Total Other Income (Expenses) – net	<u>37,076</u>	<u>43,042</u>
Net Income before income taxes	(90,004)	102,806
Income tax benefit (expense)	<u>23,244</u>	<u>(29,068)</u>
NET INCOME	(66,760)	73,738
RETAINED EARNINGS, beginning of year	<u>501,094</u>	<u>427,356</u>
RETAINED EARNINGS, ending of year	<u>\$ 434,334</u>	<u>\$ 501,094</u>

The accompanying notes are an integral part of these statements.

LIGHTHOUSE.NET
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,440,189	\$ 1,509,100
Cash paid to suppliers and employees	(1,441,843)	(1,247,466)
Rent income received	28,891	30,854
Interest received	4,468	7,436
Interest paid	(15,493)	(15,305)
Taxes paid	(72,006)	(42,254)
	(55,794)	242,365
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(160,526)	(74,530)
Investment in associated organization	8,233	7,039
	(152,293)	(67,491)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note	33,232	
Payments on debt	(15,948)	(33,934)
	17,284	(33,934)
NET INCREASE IN CASH	(190,803)	140,940
CASH, beginning of year	310,004	169,064
CASH, end of year	\$ 119,201	\$ 310,004

The accompanying notes are an integral part of these statements.

LIGHTHOUSE.NET
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Continued)

	2008	2007
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$ (66,760)	\$ 73,738
Adjustments to reconcile net income to net cash provided by		
Operating activities:		
Depreciation and amortization	116,784	114,834
Loss (Gain) on sale of assets		(3,638)
Income from associated organization	(19,210)	(16,419)
(Increase) decrease in:		
Customer accounts receivable	(17,182)	15,084
Inventory	(3,029)	(372)
Prepaid expenses	(18,612)	21,307
Increases (decrease) in:		
Accounts payable	(2,950)	2,951
Customer deposits	696	388
Accrued liabilities	(45,531)	34,492
Total Adjustments	10,966	168,627
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (55,794)	\$ 242,365

The accompanying notes are an integral part of these statements.

LIGHTHOUSE.NET
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lighthouse.Net, a wholly owned subsidiary of Cloverland Electric Cooperative, Inc., is a Michigan corporation, which was incorporated and commenced doing business March 26, 1996. Lighthouse.Nets' principal activity is providing internet communications services to rural residents of the Eastern Upper Peninsula Michigan area. The company also engages in retail sales of computers and related supplies. The main office is located in Sault Ste. Marie, Michigan.

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.

Accounting Method

Lighthouse.Net accounts for all transactions on the accrual basis of accounting.

Cash

For the purposes of the statement of cash flows, Lighthouse.Net considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable is composed primarily of amounts due from customers for internet services. An allowance for doubtful accounts has been estimated based on past customer history. After all collection attempts have been exhausted, the account is written off and sent to a collection agency.

Materials and Supplies

Computer materials and supplies for resale are valued at the lower of cost or market using the first-in, first-out (FIFO) method.

Equipment

Equipment is stated at cost. Expenditures for equipment, which substantially increase useful lives are capitalized. Normal repairs and maintenance items are expensed as incurred. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in income. Depreciation is computed on assets over the estimated useful life of the assets on a straight-line method for financial reporting and an accelerated method for income tax purposes.

Advertising

The cost of advertising is expensed as incurred.

LIGHTHOUSE.NET
NOTES TO FINANCIAL STATEMENTS

NOTE 2: 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	\$	123,597
Uninsured		
Total deposits at banks		123,597
Working funds		250
In transit items		(4,646)
Total Cash	\$	119,201

NOTE 3: PROPERTY AND EQUIPMENT

Equipment in service consisted of the following at December 31, 2008 and 2007:

	2008		2007
Building	\$ 526,887	\$	448,648
Land	80,793		80,793
Equipment – internet	436,286		698,355
Furniture and fixtures	31,529		59,137
Equipment	132,855		133,619
Work in progress	1,208,350		1,420,552
	35,486		
Less accumulated depreciation	1,243,836		1,420,552
	508,623		729,078
	\$ 735,213		\$ 691,474

Depreciation of equipment in service amounted to \$116,784 and \$114,834 for the years ended December 31, 2008 and 2007, respectively.

LIGHTHOUSE.NET
NOTES TO FINANCIAL STATEMENTS

NOTE 4: GOODWILL

The carrying amount of Goodwill for the years ended December 31, 2008 and 2007 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 5: LONG-TERM DEBT

Details of long-term debt consists of the following:

	2008	2007
Construction loan – Bank. Interest at 5%. Monthly installments of \$2,404 to November 30, 2008, with balance due December 30, 2008. Secured by land and building.	\$	\$ 243,357
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.	229,501	
Vehicle loan-Bank. Monthly installment payments of \$627, including interest at 5.0%, until August 1, 2013. Secured by the vehicle purchased.	31,138	
	260,639	243,357
Less current maturities	16,637	16,875
TOTAL LONG-TERM DEBT	\$ 244,002	\$ 226,482

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

2009	\$	16,637
2010		17,202
2011		214,940
2012		7,095
2013		4,765

LIGHTHOUSE.NET
NOTES TO FINANCIAL STATEMENTS

NOTE 6: LINE OF CREDIT

Lighthouse.Net had available a \$225,000 line of credit with National Cooperative Services Corporation (NCSC) for 2008 with a variable interest rate. The line of credit matures in February 2009. Lighthouse.Net has an outstanding balance of \$-0- at December 31, 2008 and 2007, respectively. The agreement provides that Cloverland Electric Cooperative unconditionally guarantee all amounts due on the loan.

NOTE 7: 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 payable at December 31, 2008 and 2007 of \$3,295 and \$2,580, respectively.

NOTE 8: INCOME TAXES

The detail of the deferred tax asset is as follows:

	<u>2008</u>	<u>2007</u>
Deferred tax asset arising from:		
Timing difference	\$ 11,773	\$ 6,840
Deferred tax liability arising from:		
Accumulated depreciation for tax purposes in excess of book	<u>(35,712)</u>	<u>(39,522)</u>
Net deferred tax asset (liability)	<u>\$ (23,939)</u>	<u>\$ (32,682)</u>

The detail of income tax expense is as follows:

	<u>2008</u>	<u>2007</u>
Current operations	\$ (14,537)	\$ 23,161
Deferred taxes	<u>(8,707)</u>	<u>5,907</u>
Total income tax expense	<u>\$ (23,244)</u>	<u>\$ 29,068</u>

LIGHTHOUSE.NET
NOTES TO FINANCIAL STATEMENTS

NOTE 9: RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2008 presentation.

NOTE 10: RETIREMENT PLAN

Retirement plan benefits for substantially all employees are provided through participation in a retirement savings plan of the National Rural Electric Cooperative Association (NRECA) and its member systems. The income earned by funds while held under the plans is tax-exempt under Code Sections 401 and 501 of the Internal Revenue Code. Contributions to the savings program, which are based on a percentage of the employees' compensation, were \$9,414 in 2008 and \$6,416 in 2007.

SUPPLEMENTARY DATA

LIGHTHOUSE.NET
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Salaries and wages	\$ 278,780	\$ 303,277
Depreciation	106,349	106,671
Advertising	36,073	13,680
Legal and accounting	28,014	12,175
Property and other taxes	27,990	20,395
Transportation	24,690	21,037
Utilities and telephone	22,198	22,403
Insurance – employee health	22,110	10,663
Data processing	21,124	22,978
Uncollectible accounts	20,004	20,234
Rent	17,557	44,022
Miscellaneous	15,957	16,718
Miscellaneous supplies	15,914	6,605
Charitable contributions	12,392	11,359
Postage and shipping	10,727	8,098
Office supplies	10,381	14,024
Other outside services	10,264	7,962
Pension	9,494	6,416
Building maintenance and cleaning supplies	8,253	6,022
Travel and meetings	6,359	2,124
Insurance	6,338	6,840
Meals and entertainment	4,568	3,338
Dues and subscriptions	4,538	3,517
Employee training	3,939	3,201
Board meeting expenses	3,740	3,560
Michigan business tax	1,500	28,328
Employee fitness program	2	279
	\$ 729,255	\$ 725,926
TOTAL	\$ 729,255	\$ 725,926