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UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL UTILITIES SERVICE

**FINANCIAL AND STATISTICAL REPORT**

INSTRUCTIONS - For detailed instructions, see RUS Bulletin 1717B-2.  
*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.*

BORROWER DESIGNATION MI0043

PERIOD ENDED  
December, 2009 (Prepared with Audited Data)

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

4/7/2010

DATE

**PART A. STATEMENT OF OPERATIONS**

ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
1. Operating Revenue and Patronage Capital	21,280,154	22,149,857	21,951,484	2,731,418
2. Power Production Expense	1,019,547	1,208,901	781,004	193,921
3. Cost of Purchased Power	10,624,214	11,401,234	11,260,899	1,335,611
4. Transmission Expense	487	491	662	34
5. Distribution Expense - Operation	895,266	967,298	810,052	92,812
6. Distribution Expense - Maintenance	1,660,530	1,715,781	1,828,629	12,304
7. Customer Accounts Expense	673,169	687,771	674,125	55,917
8. Customer Service and Informational Expense	47,024	36,812	47,476	2,525
9. Sales Expense	86,232	84,646	84,356	7,677
10. Administrative and General Expense	2,130,765	1,662,385	2,060,569	183,591
11. Total Operation & Maintenance Expense (2 thru 10)	17,137,234	17,765,319	17,547,772	1,884,392
12. Depreciation and Amortization Expense	1,800,388	1,891,597	1,824,691	164,652
13. Tax Expense - Property & Gross Receipts	674,235	684,786	700,535	57,786
14. Tax Expense - Other	51,590	46,112	76,397	(10,000)
15. Interest on Long-Term Debt	1,763,084	1,900,194	1,631,572	183,585
16. Interest Charged to Construction - Credit	0	0		0
17. Interest Expense - Other	119,159	6,067	7,485	479
18. Other Deductions	13,441	108	2,806	68
19. Total Cost of Electric Service (11 thru 18)	21,559,131	22,294,183	21,791,258	2,280,962
20. Patronage Capital & Operating Margins (1 minus 19)	(278,977)	(144,326)	160,226	450,456
21. Non Operating Margins - Interest	95,923	167,709	88,335	5,308
22. Allowance for Funds Used During Construction	0		0	0
23. Income (Loss) from Equity Investments	(66,760)	49,223	(20,000)	4,012
24. Non Operating Margins - Other	1,489,514	843,289	505,000	72,783
25. Generation and Transmission Capital Credits	0		0	0
26. Other Capital Credits and Patronage Dividends	140,257	131,400	121,955	3,867
27. Extraordinary Items	0		0	0
28. Patronage Capital or Margins (20 thru 27)	1,379,957	1,047,295	855,516	536,426

## FINANCIAL AND STATISTICAL REPORT

BORROWER DESIGNATION

MI0043

PERIOD ENDED

December, 2009

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	143	125	5. Miles Transmission	0.00	0.00
2. Services Retired	39	54	6. Miles Distribution - Overhead	2,144.11	2,143.83
3. Total Services in Place	19,829	19,924	7. Miles Distribution - Underground	429.11	438.49
4. Idle Services (Exclude Seasonals)	437	457	8. Total Miles Energized (5 + 6 + 7)	2,573.22	2,582.32

## PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service .....	70,725,083	29. Memberships.....	79,265
2. Construction Work in Progress .....	2,023,366	30. Patronage Capital.....	18,125,352
3. Total Utility Plant (1 + 2) .....	72,748,449	31. Operating Margins - Prior Years.....	506,734
4. Accum. Provision for Depreciation and Amort .....	26,037,382	32. Operating Margins - Current Year.....	(12,926)
5. Net Utility Plant (3 - 4) .....	46,711,067	33. Non-Operating Margins.....	1,921,840
6. Non-Utility Property (Net) .....	0	34. Other Margins and Equities.....	(44,902)
7. Investments in Subsidiary Companies .....	710,741	35. Total Margins & Equities (29 thru 34).....	20,575,363
8. Invest. in Assoc. Org. - Patronage Capital .....	466,390	36. Long-Term Debt - RUS (Net).....	27,152,083
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..	7,630,044	38. Long-Term Debt - Other - RUS Guaranteed.....	0
11. Investments in Economic Development Projects ....	0	39. Long-Term Debt Other (Net).....	8,430,304
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) ...	8,807,175	42. Total Long-Term Debt (36 thru 40 - 41).....	35,582,387
15. Cash - General Funds .....	1,231,550	43. Obligations Under Capital Leases - Noncurrent.....	0
16. Cash - Construction Funds - Trustee .....	21,384	44. Accumulated Operating Provisions and Asset Retirement Obligations..	995,065
17. Special Deposits .....	0	45. Total Other Noncurrent Liabilities (43 + 44).....	995,065
18. Temporary Investments .....	3,691	46. Notes Payable.....	0
19. Notes Receivable (Net) .....	0	47. Accounts Payable.....	1,871,334
20. Accounts Receivable - Sales of Energy (Net) .....	3,196,481	48. Consumers Deposits.....	80,897
21. Accounts Receivable - Other (Net) .....	538,300	49. Current Maturities Long-Term Debt.....	1,272,000
22. Materials and Supplies - Electric & Other .....	1,221,520	50. Current Maturities Long-Term Debt -Economic Development.....	0
23. Prepayments .....	76,420	51. Current Maturities Capital Leases.....	0
24. Other Current and Accrued Assets .....	10,066	52. Other Current and Accrued Liabilities.....	1,416,464
25. Total Current and Accrued Assets (15 thru 24) ....	6,299,412	53. Total Current & Accrued Liabilities (46 thru 52).....	4,640,695
26. Regulatory Assets .....	0	54. Regulatory Liabilities.....	0
27. Other Deferred Debits .....	46,363	55. Other Deferred Credits.....	70,507
28. Total Assets and Other Debits (5+14+25 thru 27)..	61,864,017	56. Total Liabilities and Other Credits (35+ 42 + 45 + 53 thru 55).....	61,864,017

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**FINANCIAL AND STATISTICAL REPORT**

*INSTRUCTIONS - See RUS Bulletin 1717B-2*

BORROWER DESIGNATION

MI0043

PERIOD ENDED

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**PART D. NOTES TO FINANCIAL STATEMENTS**

## FINANCIAL AND STATISTICAL REPORT

BORROWER DESIGNATION

PERIOD ENDED

INSTRUCTIONS - See RUS Bulletin 1717B-2

## PART E. CHANGES IN UTILITY PLANT

PLANT ITEM	BALANCE BEGINNING OF YEAR	ADDITIONS	RETIREMENTS	ADJUSTMENTS AND TRANSFER	BALANCE END OF YEAR
	(a)	(b)	(c)	(d)	(e)
1. Distribution Plant	58,659,971	1,779,771	207,135	(242,623)	59,989,984
2. General Plant	4,425,001	646,495	432,894		4,638,602
3. Headquarters Plant	1,839,283	4,497			1,843,780
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)	69,176,973	2,430,763	640,029	(242,623)	70,725,084
8. Construction Work in Progress	716,836	1,306,530			2,023,366
9. TOTAL UTILITY PLANT (7 + 8)	69,893,809	3,737,293	640,029	(242,623)	72,748,450

## PART F. MATERIALS AND SUPPLIES

ITEM	BALANCE BEGINNING OF YEAR	PURCHASED	SALVAGED	USED (NET)	SOLD	ADJUSTMENT	BALANCE END OF YEAR
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1. Electric	1,120,149	1,153,350	8,023	1,068,715			1,212,807
2. Other	7,310	1,428		26			8,712

## PART G. SERVICE INTERRUPTIONS

ITEM	AVERAGE MINUTES PER CONSUMER BY CAUSE				TOTAL
	POWER SUPPLIER	MAJOR EVENT	PLANNED	ALL OTHER	
	(a)	(b)	(c)	(d)	(e)
1. Present Year	72.438	1.993	6.380	275.182	355.993
2. Five-Year Average	58.576	277.496	7.388	264.368	607.828

## PART H. EMPLOYEE-HOUR AND PAYROLL STATISTICS

1. Number of Full Time Employees	49	4. Payroll - Expensed	2,133,514
2. Employee - Hours Worked - Regular Time	102,659	5. Payroll - Capitalized	1,122,549
3. Employee - Hours Worked - Overtime	9,324	6. Payroll - Other	73,127

## PART I. PATRONAGE CAPITAL

ITEM	DESCRIPTION	THIS YEAR	CUMULATIVE
		(a)	(b)
1. Capital Credits - Distributions	a. General Retirements	951,483	10,657,876
	b. Special Retirements	48,475	562,449
	c. Total Retirements (a + b)	999,958	11,220,325
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	26,483	
	c. Total Cash Received (a + b)	26,483	

## PART J. DUE FROM CONSUMERS FOR ELECTRIC SERVICE

1. AMOUNT DUE OVER 60 DAYS	\$ 67,709	2. AMOUNT WRITTEN OFF DURING YEAR	\$ 57,679
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**FINANCIAL AND STATISTICAL REPORT**

INSTRUCTIONS - See RUS Bulletin 1717B-2

BORROWER DESIGNATION

MI0043

PERIOD ENDED

December, 2009

**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	235,008,694	10,992,570	4.68		
2	Newberry Water & Light Board	13525	1,702,770	408,664	24.00		
	Total		236,711,464	11,401,234	4.82		

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**FINANCIAL AND STATISTICAL REPORT**

INSTRUCTIONS - See RUS Bulletin 1717B-2

BORROWER DESIGNATION

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PERIOD ENDED

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**PART L. LONG-TERM LEASES**

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

USDA - RUS

**FINANCIAL AND STATISTICAL REPORT**

BORROWER DESIGNATION MI0043

PERIOD ENDED  
December, 2009

INSTRUCTIONS - See RUS Bulletin 1717B-2

**PART M. ANNUAL MEETING AND BOARD DATA**

1. Date of Last Annual Meeting 4/23/2009	2. Total Number of Members 18,861	3. Number of Members Present at Meeting 149	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 \$ 101,914	8. Does Manager Have Written Contract? Y

**FINANCIAL AND STATISTICAL REPORT**

INSTRUCTIONS - See RUS Bulletin 1717B-2

BORROWER DESIGNATION

MI0043

PERIOD ENDED

December, 2009

**PART N. LONG-TERM DEBT AND DEBT SERVICE REQUIREMENTS**

No	ITEM	BALANCE END OF YEAR (a)	INTEREST (Billed This Year) (b)	PRINCIPAL (Billed This Year) (c)	TOTAL (Billed This Year) (d)
1	Rural Utilities Service (Excludes RUS - Economic Development Loans)	27,152,083	1,355,387	493,009	1,848,396
2	National Rural Utilities Cooperative Finance Corporation	8,430,304	544,807	770,610	1,315,417
3	Bank for Cooperatives				
4	Federal Financing Bank				
5	RUS - Economic Development Loans				
6	Payments Unapplied				
	Total	35,582,387	1,900,194	1,263,619	3,163,813



## FINANCIAL AND STATISTICAL REPORT

PERIOD ENDED

December, 2009

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	9,689	9,692	
	b. kWh Sold			102,238,625
	c. Revenue			11,000,599
2. Residential Sales - Seasonal	a. No. Consumers Served	7,300	7,382	
	b. kWh Sold			20,575,620
	c. Revenue			3,277,292
3. Irrigation Sales	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
4. Comm. and Ind. 1000 KVA or Less	a. No. Consumers Served	1,606	1,508	
	b. kWh Sold			36,594,227
	c. Revenue			3,764,859
5. Comm. and Ind. Over 1000 KVA	a. No. Consumers Served	4	4	
	b. kWh Sold			25,128,080
	c. Revenue			1,916,134
6. Public Street & Highway Lighting	a. No. Consumers Served	34	34	
	b. kWh Sold			520,289
	c. Revenue			74,828
7. Other Sales to Public Authorities	a. No. Consumers Served	237	237	
	b. kWh Sold			9,516,495
	c. Revenue			691,004
8. Sales for Resale - RUS Borrowers	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
9. Sales for Resale - Other	a. No. Consumers Served	1	1	
	b. kWh Sold			19,530,008
	c. Revenue			1,211,603
10. TOTAL No. of Consumers (lines 1a thru 9a)		18,871	18,858	
11. TOTAL kWh Sold (lines 1b thru 9b)				214,103,344
12. TOTAL Revenue Received From Sales of Electric Energy (line 1c thru 9c)				21,936,319
13. Other Electric Revenue				213,537
14. kWh - Own Use				784,507
15. TOTAL kWh Purchased				236,711,464
16. TOTAL kWh Generated				5,628,528
17. Cost of Purchases and Generation				12,610,626
18. Interchange - kWh - Net				
19. Peak - Sum All kW Input (Metered) Non-coincident <input checked="" type="checkbox"/> Coincident <input type="checkbox"/>				42,447

## FINANCIAL AND STATISTICAL REPORT

BORROWER DESIGNATION

MI0043

PERIOD ENDED

December, 2009

INSTRUCTIONS - See RUS Bulletin 1717B-2

## PART I. INVESTMENTS

No	DESCRIPTION (a)	INCLUDED (\$) (b)	EXCLUDED (\$) (c)	INCOME OR LOSS (\$) (d)	RURAL DEVELOPMENT (e)
<b>2</b>	<b>Investments in Associated Organizations</b>				
	NRUCFC		235,934	26,957	
	NISC	64,462		3,267	
	NRTC	502			X
	CRC	16,884		600	
	RESCO	148,608		68,259	
	Federated	160,862		12,311	X
	NRUCFC CTCs		879,123		
	ATC	6,530,062		800,327	
	Lighthouse Computers Inc	710,741		49,223	X
	MECA	30,077			X
	NRUCFC		1,000		
	CoBank		28,920	20,007	
	Totals	7,662,198	1,144,977	980,951	
<b>6</b>	<b>Cash - General</b>				
	Old Mission Bank	1,130,310	100,000		
	CSB Payroll				
	Working Fund Petty Cash	1,240			
	Totals	1,131,550	100,000		
<b>8</b>	<b>Temporary Investments</b>				
	ED Jones		3,681		
	Credit Union Memberships	10			
	Totals	10	3,681		
<b>9</b>	<b>Accounts and Notes Receivable - NET</b>				
	AR Other	538,300			
	Totals	538,300			
<b>11</b>	<b>TOTAL INVESTMENTS (1 thru 10)</b>	<b>9,332,058</b>	<b>1,248,658</b>	<b>980,951</b>	

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**FINANCIAL AND STATISTICAL REPORT**

INSTRUCTIONS - See RUS Bulletin 1717B-2

BORROWER DESIGNATION

MI0043

PERIOD ENDED

December, 2009

**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

MI0043

PERIOD ENDED

December, 2009

**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)]

12.82 %

**PART IV. LOANS**

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

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UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL UTILITIES SERVICE

BORROWER DESIGNATION MI0043

**OPERATING REPORT - FINANCIAL**

PERIOD ENDED  
December, 2009 (Prepared with Audited Data)

INSTRUCTIONS - Submit an original and two copies to RUS or file electronically.  
For detailed instructions, see RUS Bulletin 1717B-3.

BORROWER NAME

*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.*

Cloverland Electric Co-operative

**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 Form 12a Section C of this report.

Daniel Dasho

7/26/2010

DATE

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>OPERATING REPORT -          INTERNAL COMBUSTION PLANT</b>	BORROWER DESIGNATION	MI0043
	PLANT	Dafter
	PERIOD ENDED	December, 2009

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.	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	1,000	4.10	0.00	0.00		126	8,634	0	0	46	
2.	2	1,000	0.00	0.00	0.00		0	0	8,760	0	0	
3.	3	1,000	4.70	0.00	0.00		126	8,634	0	0	58	
4.	4	3,000	130.30	0.00	0.00		1,064	7,696	0	0	1,917	
5.	5	3,000	123.40	0.00	0.00		1,062	7,332	0	366	1,828	
6.	TOTAL	9,000	262.50	0.00	0.00		2,378	32,296	8,760	366	3,849	
7.	Average BTU		138,998.09	0.00			STATION SERVICE (MWh)			0.00	391.40	
8.	Total BTU (10 <sup>6</sup> )		36,487.00	0.00	0.00	36,487.00	NET GENERATION (MWh)				3,457.60	10,552.69
9.	Total Del. Cost (\$)		449,853.00	0.00	0.00		STATION SERVICE % OF GROSS			10.16		

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 (\$)	14,616	1.	Load Factor (%)	1.04%
2.	No. Emp. Part Time	1	6.	Other Accounts Plant Payroll (\$)	11,175	2.	Plant Factor (%)	4.88%
3.	Total Emp. - Hrs. Worked	3,701	7.	TOTAL Plant Payroll (\$)	138,524	3.	Running Plant Capacity Factor (%)	58.05%
4.	Oper. Plant Payroll (\$)	112,733				4.	15 Min. Gross Max. Demand (kW)	
						5.	Indicated Gross Max. Demand (kW)	42,447

SECTION D. COST OF NET ENERGY GENERATED					
LINE NO.	PRODUCTION EXPENSE	ACCOUNT NUMBER	AMOUNT (\$)	MILLS/NET kWh	\$/10 <sup>6</sup> BTU
			(a)	(b)	(c)
1.	Operation, Supervision and Engineering	546	15,658		
2.	Fuel, Oil	547.1	449,853		
3.	Fuel, Gas	547.2	0		
4.	Fuel, Other	547.3	0		
5.	Energy for Compressed Air	547.4	0		
6.	<b>FUEL SUBTOTAL (2 thru 5)</b>	547	449,853	130.11	
7.	Generation Expenses	548	175,137		
8.	Miscellaneous Other Power Generation Expenses	549	32,355		
9.	Rents	550	0		
10.	<b>NON-FUEL SUBTOTAL (1 + 7 thru 9)</b>		223,150		
11.	<b>OPERATION EXPENSE (6 + 10)</b>		673,003	194.64	
12.	Maintenance, Supervision and Engineering	551	81		
13.	Maintenance of Structures	552	0		
14.	Maintenance of Generating and Electric Plant	553	40,780		
15.	Maintenance of Miscellaneous Other Power Generating Plant	554	0		
16.	<b>MAINTENANCE EXPENSE (12 thru 15)</b>		40,861		
17.	<b>TOTAL PRODUCTION EXPENSE (11 + 16)</b>		713,864	206.46	
18.	Depreciation	553.512	33,143		
19.	Interest	554.513	47,505		
20.	<b>TOTAL FIXED COST (18 + 19)</b>		80,648		
21.	<b>POWER COST (17 + 20)</b>		794,512	229.79	

REMARKS (including Unscheduled Outages)

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>OPERATING REPORT -          INTERNAL COMBUSTION PLANT</b>	BORROWER DESIGNATION	MI0043
	PLANT	Detour
	PERIOD ENDED	December, 2009

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.	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	58.92	0.00	0.00		409	6,191	0	2,160	660	
2.	2	3,000	132.99	0.00	0.00		948	7,812	0	0	1,752	
3.												
4.												
5.												
6.	TOTAL	6,000	191.91	0.00	0.00		1,357	14,003	0	2,160	2,412	
7.	Average BTU		139,000.72				STATION SERVICE (MWh)				241.00	
8.	Total BTU (10 <sup>6</sup> )		26,675.63			26,675.63	NET GENERATION (MWh)				2,171.00	12,287.25
9.	Total Del. Cost (\$)		335,516.00				STATION SERVICE % OF GROSS				9.99	

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 (\$)	1,026	1.	Load Factor (%)	0.65%
2.	No. Emp. Part Time	1	6.	Other Accounts Plant Payroll (\$)	19,916	2.	Plant Factor (%)	4.59%
3.	Total Emp. - Hrs. Worked	1,872				3.	Running Plant Capacity Factor (%)	59.25%
4.	Oper. Plant Payroll (\$)	53,479	7.	TOTAL Plant Payroll (\$)	74,421	4.	15 Min. Gross Max. Demand (kW)	
						5.	Indicated Gross Max. Demand (kW)	42,447

SECTION D. COST OF NET ENERGY GENERATED						
LINE NO.	PRODUCTION EXPENSE	ACCOUNT NUMBER	AMOUNT (\$)	MILLS/NET kWh	\$/10 <sup>6</sup> BTU	
			(a)	(b)	(c)	
1.	Operation, Supervision and Engineering	546	0			
2.	Fuel, Oil	547.1	335,516			12.57
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.	<b>FUEL SUBTOTAL (2 thru 5)</b>	547	335,516	154.54	12.57	
7.	Generation Expenses	548	97,240			
8.	Miscellaneous Other Power Generation Expenses	549	1,971			
9.	Rents	550	0			
10.	<b>NON-FUEL SUBTOTAL (1 + 7 thru 9)</b>		99,211			45.69
11.	<b>OPERATION EXPENSE (6 + 10)</b>		434,727	200.24		
12.	Maintenance, Supervision and Engineering	551	0			
13.	Maintenance of Structures	552	0			
14.	Maintenance of Generating and Electric Plant	553	60,312			
15.	Maintenance of Miscellaneous Other Power Generating Plant	554	0			
16.	<b>MAINTENANCE EXPENSE (12 thru 15)</b>		60,312	27.78		
17.	<b>TOTAL PRODUCTION EXPENSE (11 + 16)</b>		495,039	228.02		
18.	Depreciation	553,512	25,959			
19.	Interest	554,513	47,505			
20.	<b>TOTAL FIXED COST (18 + 19)</b>		73,464			33.83
21.	<b>POWER COST (17 + 20)</b>		568,503	261.86		

REMARKS (including Unscheduled Outages)

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

**REPORT ON CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**



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**CLOVERLAND ELECTRIC COOPERATIVE, INC.  
BOARD OF DIRECTORS  
DECEMBER 31, 2009**

Robert Schallip	President
Dale Carlson	Vice President
Richard Newland	Secretary/Treasurer
Carl R. Eagle	Director
Tamara Gady	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.  
Dafter, Michigan

We have audited the accompanying consolidated balance sheets of Cloverland Electric Cooperative, Inc. and subsidiary as of December 31, 2009 and 2008, 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, 2009 and 2008, 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, 2010, 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, 2010

**CLOVERLAND ELECTRIC COOPERATIVE, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2009 AND 2008**

	2009	2008
<b>ASSETS</b>		
<b>ELECTRIC PLANT AND EQUIPMENT:</b>		
In service – at cost	\$ 71,900,477	\$ 70,385,323
Construction work in progress	2,068,530	752,322
SUBTOTAL	73,969,007	71,137,645
Less accumulated depreciation	26,536,350	25,192,257
NET ELECTRIC PLANT	47,432,657	45,945,388
 <b>OTHER ASSETS AND INVESTMENTS:</b>		
Investments in associated organizations	8,260,369	7,339,527
Temporarily restricted investments	237	237
Goodwill, net of amortization	125,590	125,590
TOTAL OTHER ASSETS AND INVESTMENTS	8,386,196	7,465,354
 <b>CURRENT ASSETS:</b>		
Cash and temporary cash investments	1,383,695	3,741,596
Accounts receivable, less allowance for doubtful accounts of \$64,510 and \$91,000 in 2009 and 2008, respectively	3,669,673	2,938,651
Refundable power costs	81,165	317,966
Materials and supplies	1,031,638	1,037,284
Prepaid expenses and other current assets	406,119	172,758
Prepaid federal income tax	14,500	23,500
TOTAL CURRENT ASSETS	6,586,790	8,231,755
DEFERRED DEBITS	23,000	23,000
TOTAL ASSETS	\$ 62,428,643	\$ 61,665,497

The accompanying notes are an integral part of these statements.

<b>EQUITIES AND LIABILITIES</b>	<u>2009</u>	<u>2008</u>
<b>EQUITIES:</b>		
Memberships	\$ 79,265	\$ 79,455
Patronage capital	19,172,647	19,125,592
Other equities	<u>1,323,451</u>	<u>1,204,063</u>
<b>TOTAL EQUITIES</b>	<u>20,575,363</u>	<u>20,409,110</u>
<b>LONG-TERM DEBT, NET OF CURRENT MATURITIES:</b>		
Mortgage notes to Rural Utilities Service	27,152,083	26,485,448
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	8,430,304	9,106,914
Vehicle loan-Soo Co-op Credit Union	18,616	25,030
Mortgage note to Central Savings Bank	<u>207,652</u>	<u>218,972</u>
<b>TOTAL LONG-TERM DEBT</b>	<u>35,808,655</u>	<u>35,836,364</u>
<b>OTHER NON-CURRENT LIABILITIES</b>		
Accrued Postretirement benefits other than pensions and deferred compensation	1,093,977	1,221,022
Deferred income tax liability	<u>36,789</u>	<u>23,939</u>
<b>TOTAL OTHER NON-CURRENT LIABILITIES</b>	<u>1,130,766</u>	<u>1,244,961</u>
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	1,289,196	1,226,637
Accounts payable:		
Purchased power	1,579,712	1,180,074
Other	306,426	354,145
Customer deposits and prepayments	167,080	176,175
Accrued interest	105,354	127,373
Accrued vacation and sick pay	407,330	381,024
Accrued taxes and other current liabilities	<u>1,058,524</u>	<u>729,397</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>4,913,622</u>	<u>4,174,825</u>
<b>DEFERRED CREDITS</b>	<u>237</u>	<u>237</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u>\$ 62,428,643</u>	<u>\$ 61,665,497</u>

**CLOVERLAND ELECTRIC COOPERATIVE, INC.**  
**CONSOLIDATED STATEMENTS OF REVENUE**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	% Of Operating Revenue
OPERATING REVENUES	\$ 23,498,855	100.00
OPERATING EXPENSES:		
Cost of power – produced	1,208,901	5.14
Cost of power – purchased	11,401,234	48.52
Cost of goods sold	763,701	3.25
Transmission	491	0.00
Distribution – operations	967,298	4.12
Distribution – maintenance	1,715,780	7.30
Customer accounts	700,562	2.98
Customer service and information	36,812	0.16
Sales expense	84,647	0.36
Administrative and general	2,076,813	8.84
Depreciation	2,002,692	8.52
Taxes – property	706,176	3.01
Taxes – other	90,290	0.38
TOTAL OPERATING EXPENSES	21,755,397	92.58
OPERATING MARGINS BEFORE FIXED CHARGES	1,743,458	7.42
FIXED CHARGES:		
Interest on long-term debt	1,915,734	8.15
Other interest	6,067	0.03
TOTAL FIXED CHARGES	1,921,801	8.18
OPERATING MARGINS AFTER FIXED CHARGES	(178,343)	(0.76)
CAPITAL CREDITS	185,814	0.79
NET OPERATING MARGINS	7,471	0.03
NON-OPERATING MARGINS:		
Interest	171,076	0.73
Other	868,748	3.70
TOTAL NON-OPERATING MARGINS	1,039,824	4.43
NET MARGINS	\$ 1,047,295	4.46

The accompanying notes are an integral part of these statements.

2008	% Of Operating Revenue	Increase (Decrease)
\$ 22,736,829	100.00	\$ 762,026
1,019,547	4.48	189,354
10,624,214	46.73	777,020
854,500	3.76	(90,799)
487	0.01	4
895,266	3.94	72,032
1,660,530	7.30	55,250
741,638	3.26	(41,076)
47,025	0.21	(10,213)
86,232	0.38	(1,585)
2,647,774	11.64	(570,961)
1,906,737	8.38	95,955
701,584	3.09	4,592
30,487	0.13	59,803
<u>21,216,021</u>	<u>93.31</u>	<u>539,376</u>
<u>1,520,808</u>	<u>6.69</u>	<u>222,650</u>
1,778,577	7.82	137,157
<u>119,159</u>	<u>0.53</u>	<u>(113,092)</u>
<u>1,897,736</u>	<u>8.35</u>	<u>24,065</u>
(376,928)	(1.66)	198,585
<u>159,467</u>	<u>0.70</u>	<u>26,347</u>
<u>(217,461)</u>	<u>(0.96)</u>	<u>224,932</u>
100,391	0.44	70,685
<u>1,497,027</u>	<u>6.59</u>	<u>(628,279)</u>
<u>1,597,418</u>	<u>7.03</u>	<u>(557,594)</u>
<u>\$ 1,379,957</u>	<u>6.07</u>	<u>\$ (332,662)</u>

**CLOVERLAND ELECTRIC COOPERATIVE, INC.**  
**CONSOLIDATED STATEMENT OF EQUITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>Memberships</u>	<u>Patronage capital</u>	<u>Other equities</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, January 1, 2008	\$ 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		<u>1,446,717</u>	<u>(66,760)</u>		<u>1,379,957</u>
Balance, December 31, 2008	79,455	19,125,592	1,746,038	(541,975)	20,409,110
Post retirement adjustment				48,472	48,472
Memberships issued	(190)				(190)
Other equity transactions		48,941	21,693		70,634
Retirement of capital credits		(999,958)			(999,958)
Current year margins		<u>998,072</u>	<u>49,223</u>		<u>1,047,295</u>
Balance, December 31, 2009	<u>\$ 79,265</u>	<u>\$ 19,172,647</u>	<u>\$ 1,816,954</u>	<u>\$ (493,503)</u>	<u>\$ 20,575,363</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, 2009 AND 2008**

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 22,516,327	\$ 23,092,657
Cash paid to suppliers and employees	(18,409,986)	(17,443,889)
Rent income	28,528	28,891
Interest received	171,024	100,937
Interest paid	(1,943,820)	(1,907,354)
Taxes paid	(559,053)	(821,156)
	<u>1,803,020</u>	<u>3,050,086</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Construction and acquisition of plant	(3,418,001)	(2,330,486)
Plant removal costs	(50,228)	(89,065)
Net proceeds from sale of plant		36,131
(Increase) decrease in:		
Materials inventory	4,764	178,732
Investments in associated organizations	108,152	301,107
	<u>(3,355,313)</u>	<u>(1,903,581)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Retirement of patronage capital credits	(775,086)	(448,690)
Donated capital	21,693	65,548
Loan advances	2,700,000	7,533,232
Payments on debt	(2,752,025)	(5,467,109)
Memberships issued, net	(190)	1,975
	<u>(805,608)</u>	<u>1,684,956</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,357,901)</b>	<b>2,831,461</b>
<b>CASH AND TEMPORARY CASH INVESTMENTS, beginning</b>	<b>3,741,596</b>	<b>910,135</b>
<b>CASH AND TEMPORARY CASH INVESTMENTS, ending</b>	<b>\$ 1,383,695</b>	<b>\$ 3,741,596</b>

The accompanying notes are an integral part of these statements.

**CLOVERLAND ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(Continued)

	2009	2008
<b>RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net margins	\$ 1,047,295	\$ 1,379,957
Adjustments to reconcile net margins to net cash provided by		
Operating activities:		
Depreciation and amortization	2,136,342	2,045,373
Capital credits	(185,814)	(159,467)
Patronage capital refunds applied to accounts written off	(242,047)	(216,314)
Loss (Gain) on the sale of fixed assets	(2,393)	66
Income from investment	(843,181)	(1,476,074)
(Increase) decrease in:		
Customer and other accounts receivable	(731,022)	577,320
Current & accrued assets - other	(224,361)	217,562
Inventory of subsidiary	882	(3,029)
Refundable power costs	236,801	694,246
Increase (decrease) in:		
Accounts payable	351,919	118,872
Refunds payable to members		
Accrued interest payable	(22,019)	(9,618)
Current and accrued liabilities – other	407,663	(94,527)
Accrued postretirement benefits other than pensions	(127,045)	(24,281)
Total adjustments	755,725	1,670,129
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 1,803,020</b>	<b>\$ 3,050,086</b>

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.

Principles of Consolidation

The consolidated financial statements for 2009 and 2008 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 2009 and 2008.

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 2009 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, 2009 and 2008 consisted of:

	<u>2009</u>	<u>2008</u>
Intangible plant	\$ 252	\$ 252
Distribution plant	59,989,984	58,659,972
Generation plant	3,496,989	3,496,989
Transmission plant	755,476	755,476
General plant	<u>7,657,776</u>	<u>7,472,634</u>
	71,900,477	70,385,323
Construction work in progress	<u>2,068,530</u>	<u>752,322</u>
<b>TOTAL</b>	<u>\$ 73,969,007</u>	<u>\$ 71,137,645</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, 2009 and 2008, 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, 2009 and 2008:

	<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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Charged to:		
Depreciation and amortization expense	\$ 2,002,692	\$ 1,906,737
Other expenses	<u>133,650</u>	<u>137,895</u>
Total Expensed	2,136,342	2,044,632
Capitalized	<u>74,296</u>	<u>92,278</u>
 TOTAL DEPRECIATION	 <u>\$ 2,210,638</u>	 <u>\$ 2,136,910</u>

**NOTE 5: INVESTMENTS IN ASSOCIATED ORGANIZATIONS**

Investments in associated organizations as of December 31, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
National Rural Utilities Cooperative		
Finance Corporation:		
Capital term and zero term certificates maturing		
through 2080 interest rates between 0% and 5%	\$ 831,163	\$ 840,952
Long-term certificates maturing through 2030 at an		
interest rate of 3%	48,000	48,000
Patronage capital credits	235,934	222,455
American Transmission Company, LLC	6,530,062	5,658,370
Federated Rural Electric Ins. Co.	160,862	158,765
Deferred compensation funds	98,912	160,359
Other	<u>355,436</u>	<u>250,626</u>
 TOTAL	 <u>\$ 8,260,369</u>	 <u>\$ 7,339,527</u>

In 2001, the Cooperative transferred transmission assets with a net book value of \$4,632,376 to American Transmission Company, LLC for a .83% investment in the partnership. The Cooperative received cash from the partnership of \$2,316,188 and was allocated \$142,434 for any possible tax adjustments. The investment at December 31, 2009 and 2008 is \$6,530,062 and \$5,658,370, 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, 2009 and 2008 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, 2009 and 2008:

	<u>2009</u>	<u>2008</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 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	\$ 389,201
Uninsured	1,061,243
Total deposits at banks	1,450,444
In transit items	(71,770)
	1,378,674
Working funds	1,340
Money market funds and special construction	3,681
Total Cash	\$ 1,383,695

**NOTE 9: PATRONAGE CAPITAL**

Patronage capital balances as of December 31, 2009 and 2008 consisted of:

	2009	2008
Assignable	\$ 1,047,013	\$ 1,446,717
Assigned	30,276,418	28,829,701
	31,323,431	30,276,418
Less retirements to date	12,150,784	11,150,826
Balance	\$ 19,172,647	\$ 19,125,592

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 33.18% and 33.34% of the total assets at December 31, 2009 and 2008, respectively.

Capital credit retirements representing patronage capital from 1988, 1989, and 2008 and retirements to deceased patrons, in the amounts of \$999,958 and \$665,004 were paid in the years ended December 31, 2009 and 2008, respectively.

**NOTE 10: OTHER EQUITIES**

Other equities consisted of the following for the years ending December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Pre-1978 operating margins	\$ 506,734	\$ 506,734
Pre-1978 non-operating margins	378,063	378,063
Capital gains	11,254	11,254
Donated capital	437,346	415,653
Non-assignable margins	<u>483,557</u>	<u>434,334</u>
TOTAL	<u>\$ 1,816,954</u>	<u>\$ 1,746,038</u>

**NOTE 11: MORTGAGE NOTES**

Long-term debt is composed of 3.45% 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), and other local banks. Certain mortgage notes to CFC will be repriced and the interest rate adjusted accordingly during the next 10 years in accordance with the policy and procedure governing such repricing. The RUS notes are for 35 year periods each, with principal and interest installments due either quarterly or monthly. The notes are scheduled to be fully repaid at various times from June 2010 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:

	2009	2008
Rural Utilities Service notes bearing interest at 3.45% to 5.23% per annum, payable in monthly and quarterly installments to 2042.	\$ 29,142,440	\$ 26,935,449
National Rural Utilities Cooperation Finance Corporation notes bearing interest at 4.95% to 8.1% per annum, payable in quarterly installments to 2034.	4,875,362	5,453,794
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.	4,220,942	4,413,119
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.	218,427	229,501
Vehicle loan-Bank. Monthly installment payments of \$627, including interest at 5.0%, until August 1, 2013. Secured by the vehicle purchased.	25,037	31,138
	38,482,208	37,063,001
Less:		
RUS Cushion of credit	1,384,357	
Current maturities	1,289,196	1,226,637
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 35,808,655</b>	<b>\$ 35,836,364</b>

Unadvanced loan funds were available to Cloverland on the loan commitments from RUS in the amount of \$-0- for 2009 and 2008, respectively. Unadvanced loan funds were available to Cloverland on the loan commitments from CFC in the amount of \$-0- for 2009 and 2008, respectively.

There was a CFC Power Vision loan available in the amount of \$8,600,000 for the year ended 2009 and 2008, respectively.

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

	Total	
2010	\$	1,289,185
2011		1,713,224
2012		1,556,305
2013		1,593,390
2014		1,637,466

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

**NOTE 11: MORTGAGE NOTES - continued**

The loan agreement requires certain financial ratios to be met in the operation and management of its business. The company did not meet these ratios for 2009 or in 2008. 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 2009 and 2008, respectively. The Cooperative had an outstanding balance of \$-0- for 2009 and 2008. Interest at December 31, 2009 was charged at 4.25%

The Cooperative has available a line of credit with CoBank in the amount of \$10,000,000 for 2009. The Cooperative had an outstanding balance of \$-0- for 2009 and \$4,250,000 in 2008. Interest at December 31, 2009 was charged at 3.64%.

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 matured in February 2009, and was not renewed.

**NOTE 13: DEFERRED DEBITS AND CREDITS**

The balance of deferred credits at December 31, 2009 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, 2009.

The balance of deferred credits at December 31, 2009 and 2008 consists of consumers deposits for memberships, connection fees and aid to construction. The balances for these amounts were \$237 and \$237 for 2009 and 2008, 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 \$325,821 and \$274,565 in 2009 and 2008, respectively. Contributions to the savings program, which are based on a percentage of the employees' compensation, were \$209,975 in 2009 and \$189,401 in 2008, respectively.

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

**NOTE 15: NON-CASH INVESTING AND FINANCING ACTIVITIES**

Non-cash investing activities for 2009 and 2008 were as follows:

	2009	2008
Patronage capital allocated	\$ 131,400	\$ 140,257
Materials salvaged from inventory	50,227	14,649
Capital credits applied to bad debt	242,047	216,314
Capitalized depreciation	74,296	92,278

**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:

<b>Components of Benefit Cost</b>	2009	2008
Service Cost	\$	\$
Interest Cost	79,550	79,997
Expected return on Plan assets		
Amortization of transition obligation	24,219	24,219
Recognition of net Gain/loss	24,253	24,253
Net periodic post-retirement benefit cost	\$ 128,022	\$ 128,469

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

<b>Change in Benefit Obligation</b>	2009	2008
Benefit obligation at beginning of year	\$ 1,060,664	\$ 1,066,621
Service cost		
Interest cost	79,549	79,997
Plan amendment		
Benefits paid	(145,148)	(85,954)
Actuarial gain		
Benefit obligation at end of year	\$ 995,065	\$ 1,060,664

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

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

	2009	2008
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year		
Actual return on plan assets		
Employer contributions	\$ 145,148	\$ 85,594
Benefits paid	(145,148)	(85,594)
<b>Fair value of plan assets at end of year</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Recognized Benefit Obligation</b>	<b>\$ (995,065)</b>	<b>\$ (1,060,664)</b>
<b>Amounts Recognized in Accumulated Other Comprehensive Loss - Beginning</b>	<b>\$ 541,975</b>	<b>\$ 590,447</b>
Net actuarial gains		
Transition obligation	(24,219)	(24,219)
Net current year loss	(24,253)	(24,253)
<b>Amounts Recognized in Accumulated Other Comprehensive Loss</b>	<b>\$ 493,503</b>	<b>\$ 541,975</b>

For measurement purposes an 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009 and 2008 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, 2009.

**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>2009</u>	<u>2008</u>
Deferred tax asset arising from:		
Timing difference	\$ 6,449	\$ 11,773
Deferred tax liability arising from:		
Accumulated depreciation for tax purposes in excess of book	<u>(43,238)</u>	<u>(35,712)</u>
Net deferred tax asset (liability)	<u>\$ (36,789)</u>	<u>\$ (23,939)</u>

The detail of income tax expense is as follows:

	<u>2009</u>	<u>2008</u>
Current operations	\$ 3,512	\$ (14,537)
Deferred taxes	<u>11,538</u>	<u>(8,707)</u>
Total income tax expense	<u>\$ 15,050</u>	<u>\$ (23,244)</u>

Management believes that positions taken during prior years and to be taken for 2009 in reporting federal taxable income for Cloverland and Lighthouse are not controversial and have a high degree of being sustained upon an examination by the taxing authority.

**NOTE 19: SUBSEQUENT EVENTS**

On October 28, 2009 the Cooperative signed a purchase agreement with Wisconsin Energy Corporation to purchase the assets of Edison Sault Electric Company for \$61,488,000. The Cooperative membership approved the transaction in November 2009. The Cooperative is awaiting the approval from certain federal and state agencies before the transaction will be finalized.

Cloverland Electric Cooperative, Inc. and subsidiary management has evaluated the impact of subsequent events as they relate to the financial statements through April 1, 2010.

**ADDITIONAL INFORMATION**



**CLOVERLAND ELECTRIC COOPERATIVE, INC.**  
**CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2009**

	Cloverland Electric Cooperative	Lighthouse.net	Eliminations	Consolidated Total
<b>ASSETS</b>				
<b>ELECTRIC PLANT:</b>				
In service – at cost	\$ 70,725,083	\$ 1,175,394	\$	\$ 71,900,477
Construction work in progress	2,023,366	45,164		2,068,530
	72,748,449	1,220,558		73,969,007
Less accumulated depreciation	26,037,382	498,968		26,536,350
<b>NET ELECTRIC PLANT</b>	<b>46,711,067</b>	<b>721,590</b>		<b>47,432,657</b>
<b>OTHER ASSETS AND INVESTMENTS:</b>				
Investments in associated organizations	8,195,345	65,024		8,260,369
Investment in subsidiary	708,557		(708,557)	
Receivables from subsidiary	4,198		(4,198)	
Temporarily restricted investments	237			237
Goodwill, net of amortization		125,590		125,590
<b>TOTAL OTHER ASSETS AND INVESTMENTS</b>	<b>8,908,337</b>	<b>190,614</b>	<b>(712,755)</b>	<b>8,386,196</b>
<b>CURRENT ASSETS:</b>				
Cash and temporary cash investments	1,241,703	141,992		1,383,695
Accounts receivable, less allowance for doubtful accounts of approximately \$64,510	3,651,611	18,062		3,669,673
Refundable power costs	81,165			81,165
Materials and supplies	984,000	47,638		1,031,638
Prepaid expenses and other current assets	404,897	1,222		406,119
Prepaid Federal income tax		14,500		14,500
<b>TOTAL CURRENT ASSETS</b>	<b>6,363,376</b>	<b>223,414</b>		<b>6,586,790</b>
<b>DEFERRED DEBITS</b>	<b>23,000</b>			<b>23,000</b>
<b>TOTAL ASSETS</b>	<b>\$ 62,005,780</b>	<b>\$ 1,135,618</b>	<b>\$ (712,755)</b>	<b>\$ 62,428,643</b>

**CLOVERLAND ELECTRIC COOPERATIVE, INC.**  
**CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2009**  
**(continued)**

	Cloverland Electric Cooperative	Lighthouse.net	Eliminations	Consolidated Total
<b>EQUITIES:</b>				
Memberships	\$ 79,265	\$	\$	\$ 79,265
Patronage capital	19,172,647			19,172,647
Other equities	1,323,451	708,557	(708,557)	1,323,451
<b>TOTAL EQUITIES</b>	<b>20,575,363</b>	<b>708,557</b>	<b>(708,557)</b>	<b>20,575,363</b>
<b>LONG-TERM DEBT, NET OF CURRENT MATURITIES:</b>				
Mortgage notes to Rural Utilities Service	27,152,083			27,152,083
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	8,430,304			8,430,304
Bank loan-Soo Co-op Credit Union		18,616		18,616
Mortgage note to Central Savings Bank		207,652		207,652
<b>TOTAL LONG-TERM DEBT</b>	<b>35,582,387</b>	<b>226,268</b>		<b>35,808,655</b>
<b>OTHER NON-CURRENT LIABILITIES</b>				
Accrued Postretirement benefits other than pensions and deferred compensation	1,093,977			1,093,977
Deferred income tax liability		36,789		36,789
<b>TOTAL OTHER NON-CURRENT LIABILITIES</b>	<b>1,093,977</b>	<b>36,789</b>		<b>1,130,766</b>
<b>CURRENT LIABILITIES:</b>				
Current maturities of long-term debt	1,272,000	17,196		1,289,196
Accounts payable:				
Purchased power	1,579,712			1,579,712
Other	284,292	22,134		306,426
Intercompany		4,198	(4,198)	
Customer deposits and prepayments	80,897	86,183		167,080
Accrued interest	105,354			105,354
Accrued vacation and sick pay	407,330			407,330
Accrued taxes and other current liabilities	1,024,231	34,293		1,058,524
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,753,816</b>	<b>164,004</b>	<b>(4,198)</b>	<b>4,913,622</b>
<b>DEFERRED CREDITS</b>	<b>237</b>			<b>237</b>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<b>\$ 62,005,780</b>	<b>\$ 1,135,618</b>	<b>\$ (712,755)</b>	<b>\$ 62,428,643</b>

**CLOVERLAND ELECTRIC COOPERATIVE, INC.**  
**CONSOLIDATING STATEMENT OF REVENUE**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Cloverland Electric Cooperative	Lighthouse.net	Eliminations	Consolidated Total
OPERATING REVENUES	\$ 22,149,857	\$ 1,348,998	\$	\$ 23,498,855
OPERATING EXPENSES:				
Cost of power-produced	1,208,901			1,208,901
Cost of power—purchased	11,401,234			11,401,234
Cost of goods sold		763,701		763,701
Transmission	491			491
Distribution – operations	967,298			967,298
Distribution – maintenance	1,715,780			1,715,780
Customer accounts	687,771	12,791		700,562
Customer service and information expense	36,812			36,812
Sales expense	84,647			84,647
Administrative and general	1,662,384	416,229	(1,800)	2,076,813
Depreciation and amortization	1,891,596	111,096		2,002,692
Taxes – property	684,786	21,390		706,176
Taxes – other	46,112	44,178		90,290
<b>TOTAL OPERATING EXPENSES</b>	<b>20,387,812</b>	<b>1,369,385</b>	<b>(1,800)</b>	<b>21,755,397</b>
OPERATING MARGINS BEFORE FIXED CHARGES	1,762,045	(20,387)	1,800	1,743,458
FIXED CHARGES:				
Interest on long-term debt	1,900,195	15,539		1,915,734
Other interest	6,067			6,067
<b>TOTAL FIXED CHARGES</b>	<b>1,906,262</b>	<b>15,539</b>		<b>1,921,801</b>
OPERATING MARGINS AFTER FIXED CHARGES	(144,217)	(35,926)	1,800	(178,343)
CAPITAL CREDITS	131,400	54,414		185,814
NET OPERATING MARGINS	(12,817)	18,488	1,800	7,471
NON-OPERATING MARGINS:				
Interest Income	167,708	3,368		171,076
Other	843,181	27,367	(1,800)	868,748
Income from subsidiary	49,223		(49,223)	
<b>TOTAL NON-OPERATING MARGINS</b>	<b>1,060,112</b>	<b>30,735</b>	<b>(51,023)</b>	<b>1,039,824</b>
NET MARGINS	\$ 1,047,295	\$ 49,223	\$ (49,223)	\$ 1,047,295



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

April 1, 2010

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, 2009, and have issued our report thereon dated April 1, 2010. 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, 2009 AND 2008**

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**CLOVERLAND ELECTRIC COOPERATIVE, INC.**  
**BOARD OF DIRECTORS**  
**DECEMBER 31, 2009**

Robert Schallip	President
Dale Carlson	Vice President
Richard Newland	Secretary/Treasurer
Carl R. Eagle	Director
Tamara Gady	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, 2009 and 2008, 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 \$422,863 and \$451,160 for the years ended December 31, 2009 and 2008, 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, 2009 and 2008, 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, 2010, 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, 2010

**CLOVERLAND ELECTRIC COOPERATIVE, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2009 AND 2008**

	2009	2008
<b>ASSETS</b>		
<b>ELECTRIC PLANT:</b>		
In service – at cost	\$ 70,725,083	\$ 69,176,973
Construction work in progress	2,023,366	716,836
SUBTOTAL	72,748,449	69,893,809
Less accumulated depreciation	26,037,382	24,683,634
NET ELECTRIC PLANT	46,711,067	45,210,175
<b>OTHER ASSETS AND INVESTMENTS:</b>		
Investments in associated organizations	8,195,345	7,317,540
Investment in subsidiary	708,557	659,334
Accounts receivable from subsidiary	4,198	3,295
Temporarily restricted investments	237	237
TOTAL OTHER ASSETS AND INVESTMENTS	8,908,337	7,980,406
<b>CURRENT ASSETS:</b>		
Cash and temporary cash investments	1,241,703	3,622,395
Accounts receivable, less allowance for doubtful accounts of \$53,000 in 2009 and 2008, respectively	3,651,611	2,904,532
Refundable power costs	81,165	317,966
Materials and supplies	984,000	988,764
Prepaid expenses and other current assets	404,897	167,099
TOTAL CURRENT ASSETS	6,363,376	8,000,756
DEFERRED DEBITS	23,000	23,000
TOTAL ASSETS	\$ 62,005,780	\$ 61,214,337

The accompanying notes are an integral part of these statements.

	<u>2009</u>	<u>2008</u>
<b>EQUITIES AND LIABILITIES</b>		
<b>EQUITIES:</b>		
Memberships	\$ 79,265	\$ 79,455
Patronage capital	19,172,647	19,125,592
Other equities	<u>1,323,451</u>	<u>1,204,063</u>
<b>TOTAL EQUITIES</b>	<u>20,575,363</u>	<u>20,409,110</u>
<b>LONG-TERM DEBT, NET OF CURRENT MATURITIES:</b>		
Mortgage notes to Rural Utilities Service	27,152,083	26,485,448
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	<u>8,430,304</u>	<u>9,106,914</u>
<b>TOTAL LONG-TERM DEBT</b>	<u>35,582,387</u>	<u>35,592,362</u>
<b>OTHER NON-CURRENT LIABILITIES</b>		
Accrued Postretirement benefits other than pensions and deferred Compensation	<u>1,093,977</u>	<u>1,221,022</u>
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	1,272,000	1,210,000
Accounts payable:		
Purchased power	1,579,712	1,180,074
Other	284,292	293,441
Refunds payable to members		
Customer deposits and prepayments	80,897	90,957
Accrued interest	105,354	127,373
Accrued vacation and sick pay	407,330	381,024
Accrued taxes and other current liabilities	<u>1,024,231</u>	<u>708,737</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>4,753,816</u>	<u>3,991,606</u>
<b>DEFERRED CREDITS</b>	<u>237</u>	<u>237</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u>\$ 62,005,780</u>	<u>\$ 61,214,337</u>

**CLOVERLAND ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF REVENUE**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	% Of Operating Revenue
OPERATING REVENUES	\$ 22,149,857	100.00
OPERATING EXPENSES:		
Cost of power – produced	1,208,901	5.46
Cost of power – purchased	11,401,234	51.47
Transmission	491	0.00
Distribution – operations	967,298	4.37
Distribution – maintenance	1,715,780	7.75
Customer accounts	687,771	3.10
Customer service and information	36,812	0.17
Sales expense	84,647	0.38
Administrative and general	1,662,384	7.51
Depreciation	1,891,596	8.54
Taxes – property	684,786	3.09
Taxes – other	46,112	0.20
	20,387,812	92.04
TOTAL OPERATING EXPENSES		
OPERATING MARGINS BEFORE FIXED CHARGES	1,762,045	7.96
FIXED CHARGES:		
Interest on long-term debt	1,900,195	8.58
Other interest	6,067	0.03
	1,906,262	8.61
TOTAL FIXED CHARGES		
OPERATING MARGINS AFTER FIXED CHARGES	(144,217)	(0.65)
CAPITAL CREDITS	131,400	0.59
NET OPERATING MARGINS	(12,817)	(0.06)
NON-OPERATING MARGINS:		
Interest	167,708	0.76
Other	843,181	3.81
Income from subsidiary	49,223	0.22
	1,060,112	4.79
TOTAL NON-OPERATING MARGINS		
NET MARGINS	\$ 1,047,295	4.73

The accompanying notes are an integral part of these statements.

2008	% Of Operating Revenue	Increase (Decrease)
\$ 21,280,154	100.00	\$ 869,703
1,019,547	4.79	189,354
10,624,214	49.93	777,020
487	0.00	4
895,266	4.21	72,032
1,660,530	7.80	55,250
673,169	3.16	14,602
47,025	0.22	(10,213)
86,232	0.41	(1,585)
2,130,765	10.01	(468,381)
1,800,388	8.46	91,208
674,235	3.17	10,551
51,590	0.24	(5,478)
<u>19,663,448</u>	<u>92.40</u>	<u>724,364</u>
<u>1,616,706</u>	<u>7.60</u>	<u>145,339</u>
1,763,084	8.29	137,111
119,159	0.56	(113,092)
<u>1,882,243</u>	<u>8.85</u>	<u>24,019</u>
(265,537)	(1.25)	121,320
<u>140,257</u>	<u>0.66</u>	<u>(8,857)</u>
<u>(125,280)</u>	<u>(0.59)</u>	<u>112,463</u>
95,923	0.45	71,785
1,476,074	6.94	(632,893)
(66,760)	(0.32)	115,983
<u>1,505,237</u>	<u>7.07</u>	<u>(445,125)</u>
<u>\$ 1,379,957</u>	<u>6.48</u>	<u>\$ (332,662)</u>

**CLOVERLAND ELECTRIC COOPERATIVE, INC.**  
**STATEMENT OF EQUITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>Memberships</u>	<u>Patronage capital</u>	<u>Other equities</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, January 1, 2008	\$ 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		<u>1,446,717</u>	<u>(66,760)</u>		<u>1,379,957</u>
Balance, December 31, 2008	79,455	19,125,592	1,746,038	(541,975)	20,409,110
Adjustment for adoption of SFAS No. 158				48,472	48,472
Memberships issued	(190)				(190)
Other equity transactions		48,941	21,693		70,634
Retirement of capital credits		(999,958)			(999,958)
Current year margins		<u>998,072</u>	<u>49,223</u>		<u>1,047,295</u>
Balance, December 31, 2009	<u>\$ 79,265</u>	<u>\$ 19,172,647</u>	<u>\$ 1,816,954</u>	<u>\$ (493,503)</u>	<u>\$ 20,575,363</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, 2009 AND 2008**

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 21,153,009	\$ 21,660,406
Cash paid to suppliers and employees	(17,171,118)	(16,009,269)
Interest received	167,656	96,469
Interest paid	(1,928,281)	(1,891,861)
Taxes paid	(544,568)	(749,150)
	<u>1,676,698</u>	<u>3,106,595</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Construction and acquisition of plant	(3,319,366)	(2,169,960)
Plant removal costs	(50,228)	(89,065)
Net proceeds from sale of plant		36,131
(Increase) decrease in:		
Materials inventory	4,764	178,732
Investments in associated organizations	96,775	292,974
Receivables from wholly-owned subsidiary	(902)	(715)
	<u>(3,268,957)</u>	<u>(1,751,903)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Retirement of patronage capital credits	(757,911)	(448,690)
Donated capital	21,693	65,548
RUS and CFC loan advances	2,700,000	7,500,000
Payments on debt	(2,752,025)	(5,451,161)
Memberships issued, net	(190)	1,975
	<u>(788,433)</u>	<u>1,667,572</u>
Net cash provided (used) by financing activities		
	<u>(788,433)</u>	<u>1,667,572</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,380,692)</b>	<b>3,022,264</b>
<b>CASH AND TEMPORARY CASH INVESTMENTS, beginning</b>	<b>3,622,395</b>	<b>600,131</b>
<b>CASH AND TEMPORARY CASH INVESTMENTS, ending</b>	<b>\$ 1,241,703</b>	<b>\$ 3,622,395</b>

The accompanying notes are an integral part of these statements.

**CLOVERLAND ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(Continued)

	2009	2008
<b>RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net margins	\$ 1,047,295	\$ 1,379,957
Adjustments to reconcile net margins to net cash provided by		
Operating activities:		
Depreciation and amortization	2,025,246	1,928,589
Capital credits	(131,400)	(140,257)
Patronage capital refunds applied to billings and bad debts	(242,047)	(216,314)
Loss (Gain) on the sale of fixed assets	(3,554)	66
Income on investment in wholly-owned subsidiary	(49,223)	66,760
Earnings on investment in associated organization	(843,181)	(1,476,074)
(Increase) decrease in:		
Customer and other accounts receivable	(747,079)	594,502
Current & accrued assets - other	(237,798)	236,173
Refundable power costs	236,801	694,246
Increase (decrease) in:		
Accounts payable, net of capital items	380,429	117,941
Refunds payable to members		
Accrued interest payable	(22,019)	(9,618)
Current and accrued liabilities – other	341,800	(45,095)
Accrued postretirement benefits other than pensions	(78,572)	(24,281)
Total adjustments	629,403	1,726,638
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 1,676,698</b>	<b>\$ 3,106,595</b>

**SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 14):**

The accompanying notes are an integral part of these statements.



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

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Organization

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

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.

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 2009 and 2008.

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 2009 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, 2009 and 2008 consisted of:

	<u>2009</u>	<u>2008</u>
Intangible plant	\$ 252	\$ 252
Distribution plant	59,989,984	58,659,972
Generation plant	3,496,989	3,496,989
Transmission plant	755,476	755,476
General plant	<u>6,482,382</u>	<u>6,264,284</u>
	70,725,083	69,176,973
Construction work in progress	<u>2,023,366</u>	<u>716,836</u>
<b>TOTAL</b>	<u><u>\$ 72,748,449</u></u>	<u><u>\$ 69,893,809</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, 2009 and 2008, 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, 2009 and 2008:

	<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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Charged to:		
Depreciation and amortization expense	\$ 1,891,596	\$ 1,800,388
Other expenses	<u>133,650</u>	<u>128,201</u>
Total Expensed	2,025,246	1,928,589
Capitalized	<u>74,296</u>	<u>92,278</u>
<b>TOTAL DEPRECIATION</b>	<u><u>\$ 2,099,542</u></u>	<u><u>\$ 2,020,867</u></u>

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

**NOTE 4: INVESTMENTS IN ASSOCIATED ORGANIZATIONS**

Investments in associated organizations as of December 31, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
National Rural Utilities Cooperative Finance Corporation:		
Capital term and zero term certificates maturing through 2080, interest rates between 0% and 5%	\$ 831,163	\$ 840,952
Long-term certificates maturing through 2030 at an interest rate of 3%	48,000	48,000
Patronage capital credits	235,934	222,455
American Transmission Company, LLC	6,530,062	5,658,370
Federated Rural Electric Ins. Co.	160,862	158,765
Deferred compensation funds	98,912	160,359
Other	<u>290,412</u>	<u>228,639</u>
 TOTAL	 <u>\$ 8,195,345</u>	 <u>\$ 7,317,540</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, 2008	<u>434,334</u>
Book value as of December 31, 2008	659,334
Undistributed income during 2009	<u>49,223</u>
Book value as of December 31, 2009	<u>\$ 708,557</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, 2009 and 2008 is \$6,530,062 and \$5,658,370, 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, 2009 and 2008:

	<u>2009</u>	<u>2008</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	\$ 250,010
Uninsured	1,061,480
Total deposits at banks	1,311,490
In transit items	(74,471)
	1,237,019
Working funds	1,240
Money market funds and special construction	3,681
Total Cash	\$ 1,241,940

**NOTE 7: PATRONAGE CAPITAL**

Patronage capital balances as of December 31, 2009 and 2008 consisted of:

	2009	2008
Assignable	\$ 1,047,013	\$ 1,446,717
Assigned	30,276,418	28,829,701
	31,323,431	30,276,418
Less retirements to date	12,150,784	11,150,826
Balance	\$ 19,172,647	\$ 19,125,592

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 33.18% and 33.34% of the total assets at December 31, 2009 and 2008, 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 2008 and retirements to deceased patrons, in the amounts of \$999,958 and \$665,004 were paid in the years ended December 31, 2009 and 2008, respectively.

**NOTE 8: OTHER EQUITIES**

Other equities consisted of the following for the years ending December 31, 2009 and 2008:

	2009	2008
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	437,346	415,653
Non-assignable margins	483,557	434,334
TOTAL	\$ 1,816,954	\$ 1,746,038

**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 3.45% 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). Certain mortgage notes to CFC will be repriced and the interest rate adjusted accordingly during the next 10 years in accordance with the policy and procedure governing such repricing. The RUS notes are for 35 year periods each, with principal and interest installments due either quarterly or monthly. The notes are scheduled to be fully repaid at various times from June 2010 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:

	2009	2008
Rural Utilities Service notes bearing interest at 3.45% to 5.23% per annum, payable in monthly and quarterly installments through 2042.	\$ 29,142,440	\$ 26,935,449
National Rural Utilities Cooperation Finance Corporation notes bearing interest at 4.95% to 8.1% per annum, payable in quarterly installment to the year 2034.	4,875,362	5,453,794
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.	4,220,942	4,413,119
	38,238,744	36,802,362
Less:		
RUS Cushion of credit	1,384,357	
Current maturities	1,272,000	1,210,000
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 35,582,357</b>	<b>\$ 35,592,362</b>

Unadvanced loan funds were available to Cloverland on the loan commitments from RUS in the amount of \$-0- for 2009 and 2008, respectively. Unadvanced loan funds were available to Cloverland on the loan commitments from CFC in the amount of \$-0- for 2009 and 2008, respectively.

There was a CFC Power Vision loan available in the amount of \$8,600,000 for the year ended 2009 and 2008, respectively.

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

2010	\$ 1,272,000
2011	1,498,826
2012	1,549,218
2013	1,588,596
2014	1,637,466

The loan agreement requires certain financial ratios to be met in the operation and management of its business. The company did not meet these ratios for 2009 or in 2008. 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 2009 and 2008, respectively. The Cooperative had an outstanding balance of \$-0- for 2009 and 2008. Interest at December 31, 2009 was charged at 4.25%

The Cooperative has available a line of credit with CoBank in the amount of \$10,000,000 for 2009. The Cooperative had an outstanding balance of \$-0- for 2009 and \$4,250,000 in 2008. Interest at December 31, 2009 was charged at 3.64%.

**NOTE 12: DEFERRED DEBITS AND CREDITS**

The balance of deferred credits at December 31, 2009 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, 2009.

The balance of deferred credits at December 31, 2009 and 2008 consists of consumers deposits for memberships, connection fees and aid to construction. The balances for these amounts were \$237 for both 2009 and 2008.

**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 \$325,821 and \$274,565 in 2009 and 2008, respectively. Contributions to the savings program, which are based on a percentage of the employees' compensation, were \$209,975 in 2009 and \$189,401 in 2008, respectively.

**NOTE 14: NON-CASH INVESTING AND FINANCING ACTIVITIES**

Non-cash investing activities for 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Patronage capital allocated	\$ 131,400	\$ 140,257
Materials salvaged from inventory	50,227	14,649
Capital credits applied to accounts receivable	242,047	216,314
Capitalized depreciation	74,296	92,278

**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:

<b>Components of Benefit Cost</b>	<u>2009</u>	<u>2008</u>
Service Cost	\$	\$
Interest Cost	79,550	79,997
Amortization of transition obligation	24,219	24,219
Recognition of net Gain/loss	<u>24,253</u>	<u>24,253</u>
 Net periodic post-retirement benefit cost	 <u>\$ 128,022</u>	 <u>\$ 128,469</u>

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

<b>Change in Benefit Obligation</b>	<u>2009</u>	<u>2008</u>
Benefit obligation at beginning of year	\$ 1,060,664	\$ 1,066,621
Interest cost	79,549	79,997
Benefits paid	<u>(145,148)</u>	<u>(85,954)</u>
 Benefit obligation at end of year	 <u>\$ 995,065</u>	 <u>\$ 1,060,664</u>
 <b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year		
Actual return on plan assets		
Employer contributions	\$ 145,148	\$ 85,594
Benefits paid	<u>(145,148)</u>	<u>(85,594)</u>
 <b>Fair value of plan assets at end of year</b>	 <u>\$ -</u>	 <u>\$ -</u>

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

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

	2009	2008
<b>Recognized Benefit Obligation</b>	\$ (995,065)	\$ (1,060,664)
<b>Amounts Recognized in Accumulated Other Comprehensive Loss - Beginning</b>	\$ 541,975	\$ 590,447
Net actuarial gains		
Transition obligation	(24,219)	(24,219)
Net current year loss	(24,253)	(24,253)
<b>Amounts Recognized in Accumulated Other Comprehensive Loss</b>	\$ 493,503	\$ 541,975

For measurement purposes an 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009 and 2008 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, 2009.

**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, 2009 and 2008 of \$4,198 and \$3,295 respectively.

**NOTE 18: SUBSEQUENT EVENTS**

On October 28, 2009 the Cooperative signed a purchase agreement with Wisconsin Energy Corporation to purchase the assets of Edison Sault Electric Company for \$61,488,000. The Cooperative membership approved the transaction in November 2009. The Cooperative is awaiting the approval from certain federal and state agencies before the transaction will be finalized.

Cooperative management has evaluated the impact of subsequent events as they relate to the financial statements through April 1, 2010.



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

April 1, 2010

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, 2009, and have issued our report thereon dated April 1, 2010. 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