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UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

**FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION**

BORROWER DESIGNATION
MI0043

PERIOD ENDED December, 2012 (Prepared with Audited Data)

BORROWER NAME
Cloverland Electric Co-operative

INSTRUCTIONS - See help in the online application.

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

CERTIFICATION

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

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

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

(check one of the following)

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

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

Daniel Dasho

5/28/2013

DATE

PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE			THIS MONTH (d)
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
1. Operating Revenue and Patronage Capital	85,476,845	81,828,355	84,057,900	6,988,060
2. Power Production Expense	3,164,252	3,607,156	3,198,946	386,812
3. Cost of Purchased Power	48,033,878	44,072,682	46,827,193	3,950,430
4. Transmission Expense	6,070,419	6,966,782	6,365,276	498,220
5. Regional Market Expense				
6. Distribution Expense - Operation	3,226,660	3,176,971	3,200,000	361,723
7. Distribution Expense - Maintenance	4,959,060	4,979,750	5,051,000	342,988
8. Customer Accounts Expense	3,920,322	1,996,228	2,416,460	92,654
9. Customer Service and Informational Expense	683,239	1,374,844	700,000	136,876
10. Sales Expense	171,193	167,904	190,000	(27,786)
11. Administrative and General Expense	5,152,139	4,771,957	5,000,000	279,629
12. Total Operation & Maintenance Expense (2 thru 11)	75,381,162	71,114,274	72,948,875	6,021,546
13. Depreciation and Amortization Expense	3,744,705	3,809,856	4,000,000	373,950
14. Tax Expense - Property & Gross Receipts	2,491,292	2,405,055	2,600,000	103,055
15. Tax Expense - Other	166,921	22,917	170,000	(104,350)
16. Interest on Long-Term Debt	2,202,231	3,775,334	3,778,757	343,208
17. Interest Charged to Construction - Credit				
18. Interest Expense - Other	914,057	329,135	150,000	33,016
19. Other Deductions	45,340	55,291	12,000	648
20. Total Cost of Electric Service (12 thru 19)	84,945,708	81,511,862	83,659,632	6,771,073
21. Patronage Capital & Operating Margins (1 minus 20)	531,137	316,493	398,268	216,987
22. Non Operating Margins - Interest	49,703	95,396	50,000	3,564
23. Allowance for Funds Used During Construction				
24. Income (Loss) from Equity Investments	7,231	(1,420)	30,000	(39,578)
25. Non Operating Margins - Other	896,341	1,001,652	850,000	77,625
26. Generation and Transmission Capital Credits				
27. Other Capital Credits and Patronage Dividends	659,729	222,385	105,000	205,069
28. Extraordinary Items				
29. Patronage Capital or Margins (21 thru 28)	2,144,141	1,634,506	1,433,268	463,667

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

**FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION**

BORROWER DESIGNATION

MI0043

PERIOD ENDED

December, 2012

INSTRUCTIONS - See help in the online application.

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	214	106	5. Miles Transmission	0.00	0.00
2. Services Retired	41	32	6. Miles Distribution – Overhead	2,858.57	2,859.56
3. Total Services in Place	42,220	42,294	7. Miles Distribution - Underground	603.44	615.48
4. Idle Services (Exclude Seasonals)	1,256	1,792	8. Total Miles Energized (5 + 6 + 7)	3,462.01	3,475.04

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	142,907,746	30. Memberships	101,490
2. Construction Work in Progress	7,703,543	31. Patronage Capital	21,391,232
3. Total Utility Plant (1 + 2)	150,611,289	32. Operating Margins - Prior Years	0
4. Accum. Provision for Depreciation and Amort.	34,345,348	33. Operating Margins - Current Year	538,878
5. Net Utility Plant (3 - 4)	116,265,941	34. Non-Operating Margins	1,924,225
6. Non-Utility Property (Net)	51,472	35. Other Margins and Equities	(220,061)
7. Investments in Subsidiary Companies	677,675	36. Total Margins & Equities (30 thru 35)	23,735,764
8. Invest. in Assoc. Org. - Patronage Capital	580,958	37. Long-Term Debt - RUS (Net)	26,224,694
9. Invest. in Assoc. Org. - Other - General Funds	0	38. Long-Term Debt - FFB - RUS Guaranteed	70,394,813
10. Invest. in Assoc. Org. - Other - Nongeneral Funds	9,601,330	39. Long-Term Debt - Other - RUS Guaranteed	0
11. Investments in Economic Development Projects	0	40. Long-Term Debt Other (Net)	5,859,242
12. Other Investments	0	41. Long-Term Debt - RUS - Econ. Devel. (Net)	0
13. Special Funds	0	42. Payments – Unapplied	0
14. Total Other Property & Investments (6 thru 13)	10,911,435	43. Total Long-Term Debt (37 thru 41 - 42)	102,478,749
15. Cash - General Funds	313,360	44. Obligations Under Capital Leases - Noncurrent	0
16. Cash - Construction Funds - Trustee	3,927	45. Accumulated Operating Provisions and Asset Retirement Obligations	1,307,790
17. Special Deposits	0	46. Total Other Noncurrent Liabilities (44 + 45)	1,307,790
18. Temporary Investments	3,691	47. Notes Payable	11,250,000
19. Notes Receivable (Net)	0	48. Accounts Payable	6,433,273
20. Accounts Receivable - Sales of Energy (Net)	6,191,197	49. Consumers Deposits	601,200
21. Accounts Receivable - Other (Net)	984,496	50. Current Maturities Long-Term Debt	1,619,500
22. Renewable Energy Credits	0	51. Current Maturities Long-Term Debt - Economic Development	0
23. Materials and Supplies - Electric & Other	3,812,020	52. Current Maturities Capital Leases	0
24. Prepayments	406,629	53. Other Current and Accrued Liabilities	3,358,278
25. Other Current and Accrued Assets	1,822,254	54. Total Current & Accrued Liabilities (47 thru 53)	23,262,251
26. Total Current and Accrued Assets (15 thru 25)	13,537,574	55. Regulatory Liabilities	0
27. Regulatory Assets	10,640,312	56. Other Deferred Credits	323,729
28. Other Deferred Debits	(246,979)	57. Total Liabilities and Other Credits (36 + 43 + 46 + 54 thru 56)	151,108,283
29. Total Assets and Other Debits (5+14+26 thru 28)	151,108,283		

<p>UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE</p> <p>FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION</p>	<p>BORROWER DESIGNATION</p> <p>MI0043</p>
<p>INSTRUCTIONS - See help in the online application.</p>	<p>PERIOD ENDED</p> <p>December, 2012</p>
<p>PART D. NOTES TO FINANCIAL STATEMENTS</p>	

<p style="text-align: center;">UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION</p>	<p>BORROWER DESIGNATION MI0043</p>
<p>INSTRUCTIONS - See help in the online application.</p>	<p>PERIOD ENDED December, 2012</p>
<p>PART D. CERTIFICATION LOAN DEFAULT NOTES</p>	
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**FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION**

BORROWER DESIGNATION MI0043

PERIOD ENDED December, 2012

INSTRUCTIONS - See help in the online application.

PART E. CHANGES IN UTILITY PLANT

PLANT ITEM	BALANCE BEGINNING OF YEAR (a)	ADDITIONS (b)	RETIREMENTS (c)	ADJUSTMENTS AND TRANSFERS (d)	BALANCE END OF YEAR (e)
1. Distribution Plant	99,293,403	11,455,233	3,222,509		107,526,127
2. General Plant	10,607,430	836,706	283,376		11,160,760
3. Headquarters Plant	2,880,084	1,504,613			4,384,697
4. Intangibles	6,409,446	31,374			6,440,820
5. Transmission Plant	755,476				755,476
6. Regional Transmission and Market Operation Plant					
7. All Other Utility Plant	12,273,063	455,951	89,148		12,639,866
8. Total Utility Plant in Service (1 thru 7)	132,218,902	14,283,877	3,595,033		142,907,746
9. Construction Work in Progress	7,503,757	199,786			7,703,543
10. Total Utility Plant (8 + 9)	139,722,659	14,483,663	3,595,033		150,611,289

PART F. MATERIALS AND SUPPLIES

ITEM	BALANCE BEGINNING OF YEAR (a)	PURCHASED (b)	SALVAGED (c)	USED (NET) (d)	SOLD (e)	ADJUSTMENT (f)	BALANCE END OF YEAR (g)
1. Electric	3,637,433	3,004,487	678	2,818,726		(18,960)	3,804,912
2. Other	9,037	1,005			2,934		7,108

PART G. SERVICE INTERRUPTIONS

ITEM	AVERAGE MINUTES PER CONSUMER BY CAUSE				TOTAL (e)
	POWER SUPPLIER (a)	MAJOR EVENT (b)	PLANNED (c)	ALL OTHER (d)	
1. Present Year	27.249	220.224	9.309	269.565	526.347
2. Five-Year Average	49.250	313.785	12.962	307.433	683.430

PART H. EMPLOYEE-HOUR AND PAYROLL STATISTICS

1. Number of Full Time Employees	112	4. Payroll - Expensed	7,675,980
2. Employee - Hours Worked - Regular Time	240,488	5. Payroll - Capitalized	1,252,515
3. Employee - Hours Worked - Overtime	16,710	6. Payroll - Other	377,365

PART I. PATRONAGE CAPITAL

ITEM	DESCRIPTION	THIS YEAR (a)	CUMULATIVE (b)
1. Capital Credits - Distributions	a. General Retirements	957,100	13,579,950
	b. Special Retirements	39,976	665,350
	c. Total Retirements (a + b)	997,076	14,245,300
2. Capital Credits - Received	a. Cash Received From Retirement of Patronage Capital by Suppliers of Electric Power		
	b. Cash Received From Retirement of Patronage Capital by Lenders for Credit Extended to the Electric System	371,567	
	c. Total Cash Received (a + b)	371,567	

PART J. DUE FROM CONSUMERS FOR ELECTRIC SERVICE

1. Amount Due Over 60 Days	\$ 454,939	2. Amount Written Off During Year	\$ 304,291
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UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0043
INSTRUCTIONS - See help in the online application	PERIOD ENDED December, 2012

PART K. kWh PURCHASED AND TOTAL COST

No	ITEM	SUPPLIER CODE	RENEWABLE ENERGY PROGRAM NAME	RENEWABLE FUEL TYPE	kWh PURCHASED	TOTAL COST	AVERAGE COST (Cents/kWh)	INCLUDED IN TOTAL COST - FUEL COST ADJUSTMENT	INCLUDED IN TOTAL COST - WHEELING AND OTHER CHARGES
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Wisconsin Electric Power Co	20847			575,363,700	37,461,873	6.51		
2	Newberry Water & Light Board	13525			0	0	0.00		
3	U S Corps of Engineers	800285			166,038,456	1,837,683	1.11		
4	Midwest Independent Transmission System Operator, Inc. (IN)	800420			0	4,773,126	0.00		
	Total				741,402,156	44,072,682	5.94		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0043
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INSTRUCTIONS - See help in the online application	PERIOD ENDED December, 2012
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PART K. kWh PURCHASED AND TOTAL COST

No	Comments
1	
2	
3	
4	

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		BORROWER DESIGNATION MI0043	
INSTRUCTIONS - See help in the online application.		PERIOD ENDED December, 2012	
PART L. LONG-TERM LEASES			
No	NAME OF LESSOR (a)	TYPE OF PROPERTY (b)	RENTAL THIS YEAR (c)
	TOTAL		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		BORROWER DESIGNATION MI0043	
INSTRUCTIONS - See help in the online application.		PERIOD ENDED December, 2012	
PART M. ANNUAL MEETING AND BOARD DATA			
1. Date of Last Annual Meeting 6/29/2012	2. Total Number of Members 42,294	3. Number of Members Present at Meeting	4. Was Quorum Present? N/A
5. Number of Members Voting by Proxy or Mail 3,149	6. Total Number of Board Members 9	7. Total Amount of Fees and Expenses for Board Members \$ 274,192	8. Does Manager Have Written Contract? Y

RUS Financial and Operating Report Electric Distribution

Revision Date 2010

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0043
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December, 2012

PART N. LONG-TERM DEBT AND DEBT SERVICE REQUIREMENTS

No	ITEM	BALANCE END OF YEAR (a)	INTEREST (Billed This Year) (b)	PRINCIPAL (Billed This Year) (c)	TOTAL (Billed This Year) (d)
1	Rural Utilities Service (Excludes RUS - Economic Development Loans)	26,224,694	1,279,997	696,308	1,976,305
2	National Rural Utilities Cooperative Finance Corporation	5,859,242	406,234	817,481	1,223,715
3	CoBank, ACB				
4	Federal Financing Bank	70,394,813	1,986,553	83,783	2,070,336
5	RUS - Economic Development Loans				
6	Payments Unapplied				
	TOTAL	102,478,749	3,672,784	1,597,572	5,270,356

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0043
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December, 2012

PART O. POWER REQUIREMENTS DATABASE - ANNUAL SUMMARY

CLASSIFICATION	CONSUMER SALES & REVENUE DATA	DECEMBER (a)	AVERAGE NO. CONSUMERS SERVED (b)	TOTAL YEAR TO DATE (c)
1. Residential Sales (excluding seasonal)	a. No. Consumers Served	29,108	31,744	
	b. kWh Sold			260,176,678
	c. Revenue			28,178,476
2. Residential Sales - Seasonal	a. No. Consumers Served	6,815	7,527	
	b. kWh Sold			17,047,100
	c. Revenue			3,000,007
3. Irrigation Sales	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
4. Comm. and Ind. 1000 KVA or Less	a. No. Consumers Served	5,900	6,301	
	b. kWh Sold			148,166,228
	c. Revenue			16,666,148
5. Comm. and Ind. Over 1000 KVA	a. No. Consumers Served	103	114	
	b. kWh Sold			361,705,349
	c. Revenue			30,434,153
6. Public Street & Highway Lighting	a. No. Consumers Served	81	88	
	b. kWh Sold			2,995,082
	c. Revenue			437,561
7. Other Sales to Public Authorities	a. No. Consumers Served	259	283	
	b. kWh Sold			13,872,422
	c. Revenue			1,235,137
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			19,445,478
	c. Revenue			1,209,174
10. Total No. of Consumers (lines 1a thru 9a)		42,267	46,058	
11. Total kWh Sold (lines 1b thru 9b)				823,408,337
12. Total Revenue Received From Sales of Electric Energy (lines 1c thru 9c)				81,160,656
13. Transmission Revenue				
14. Other Electric Revenue				667,700
15. kWh - Own Use				2,914,904
16. Total kWh Purchased				741,402,156
17. Total kWh Generated				134,327,067
18. Cost of Purchases and Generation				54,646,620
19. Interchange - kWh - Net				
20. Peak - Sum All kW Input (Metered) Non-coincident <input checked="" type="checkbox"/> Coincident <input type="checkbox"/>				139,000

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

**FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION**

BORROWER DESIGNATION MI0043

PERIOD ENDED December, 2012

INSTRUCTIONS - See help in the online application.

PART P. ENERGY EFFICIENCY PROGRAMS

CLASSIFICATION	ADDED THIS YEAR			TOTAL TO DATE		
	No. of Consumers (a)	Amount Invested (b)	Estimated MMBTU Savings (c)	No. of Consumers (d)	Amount Invested (e)	Estimated MMBTU Savings (f)
1. Residential Sales (excluding seasonal)	1,708	541,669	8,088	10,551	909,215	14,047
2. Residential Sales - Seasonal						
3. Irrigation Sales						
4. Comm. and Ind. 1000 KVA or Less	100	660,366	13,939	356	1,091,533	31,244
5. Comm. and Ind. Over 1000 KVA						
6. Public Street and Highway Lighting						
7. Other Sales to Public Authorities						
8. Sales for Resale – RUS Borrowers						
9. Sales for Resale – Other						
10. Total	1,808	1,202,035	22,027	10,907	2,000,748	45,291

RUS Financial and Operating Report Electric Distribution

Revision Date 2010

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS	BORROWER DESIGNATION MI0043 PERIOD ENDED December, 2012
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INSTRUCTIONS - Reporting of investments is required by 7 CFR 1717, Subpart N. Investment categories reported on this Part correspond to Balance Sheet items in Part C. Identify all investments in Rural Development with an 'X' in column (e). Both 'Included' and 'Excluded' Investments must be reported. See help in the online application.

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

No	DESCRIPTION (a)	INCLUDED (\$) (b)	EXCLUDED (\$) (c)	INCOME OR LOSS (\$) (d)	RURAL DEVELOPMENT (e)
1	Non-Utility Property (NET)				
	Land Parcels		51,472		
	Totals		51,472		
2	Investments in Associated Organizations				
	NRUCFC		272,507		
	NISC	102,054			
	NRTC	776			X
	CRC	16,286			
	RESCO	189,334			
	Federated Insurance	246,723			X
	NRUCFC CTCs		849,796		
	ATC	8,003,666			
	Lighthouse Computers Inc.	677,675			X
	MECA	30,077			X
	NRUCFC		1,000		
	CoBank		470,068		
	Totals	9,266,591	1,593,371		
6	Cash - General				
	FNB		20,034		
	M Bank		5,342		
	State Savings Bank		8,234		
	Soo Co-op Credit Union		1,640		
	Working Fund Petty Cash	3,440			
	General Fund Account	174,670	100,000		
	Totals	178,110	135,250		
8	Temporary Investments				
	ED Jones		3,681		
	Credit Union Membership	10			
	Totals	10	3,681		
9	Accounts and Notes Receivable - NET				
	A/R Other	984,496			
	Totals	984,496			
11	TOTAL INVESTMENTS (1 thru 10)	10,429,207	1,783,774		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS	BORROWER DESIGNATION MI0043 PERIOD ENDED December, 2012
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PART Q. SECTION II. LOAN GUARANTEES

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

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS	BORROWER DESIGNATION MI0043
	PERIOD ENDED December, 2012

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SECTION III. RATIO

RATIO OF INVESTMENTS AND LOAN GUARANTEES TO UTILITY PLANT [Total of Included Investments (Section I, 11b) and Loan Guarantees - Loan Balance (Section II, 5d) to Total Utility Plant (Line 3, Part C) of this report]	6.92 %
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SECTION IV. LOANS

No	ORGANIZATION (a)	MATURITY DATE (b)	ORIGINAL AMOUNT (\$) (c)	LOAN BALANCE (\$) (d)	RURAL DEVELOPMENT (e)
1	Employees, Officers, Directors	6/29/2015	24,148	5,253	
2	Energy Resources Conservation Loans				
	TOTAL		24,148	5,253	

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UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

**FINANCIAL AND OPERATING REPORT
ELECTRIC POWER SUPPLY**

BORROWER DESIGNATION MI0043

PERIOD ENDED December, 2012 (Prepared with Audited Data)

BORROWER NAME Cloverland Electric Co-operative

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(check one of the following)

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Daniel Dasho

5/30/2013

DATE

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC POWER SUPPLY	BORROWER DESIGNATION MI0043
INSTRUCTIONS - See help in the online application	PERIOD ENDED December, 2012

PART C RE - RENEWABLE GENERATING PLANT SUMMARY

Plant Name (a)	Prime Mover (b)	Primary Renewable Fuel Type (c)	Renewable Fuel (%) (d)	Capacity (kW) (e)	Net Generation (MWh) (f)	Capacity Factor (%) (g)
Hydro	Hydro	Hydro	100.00	40710.0	131086.5	36.80
Total:				40710.0	131086.5	

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC POWER SUPPLY	BORROWER DESIGNATION MI0043
INSTRUCTIONS - See help in the online application	PERIOD ENDED December, 2012

PART C RE - RENEWABLE GENERATING PLANT SUMMARY

Plant Name (a)	Number of Employees (h)	Total O&M Cost (mils/Net kWh) (i)	Power Cost (mils/Net kWh) (j)	Total Investment (\$1,000) (k)	Percentage Ownership (%) (l)	RUS Funding (\$1,000) (m)
Hydro	10	18	21	9,033	100	9,033
Total:	10	18	21	9,033		9,033

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC POWER SUPPLY		BORROWER DESIGNATION MI0043
INSTRUCTIONS - See help in the online application		PERIOD ENDED December, 2012
PART C RE - RENEWABLE GENERATING PLANT SUMMARY		
Plant Name	Comments	
Hydro		

reUNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE		BORROWER DESIGNATION MI0043		
FINANCIAL AND OPERATING REPORT ELECTRIC POWER SUPPLY PART C - SOURCES AND DISTRIBUTION OF ENERGY		PERIOD ENDED December, 2012		
INSTRUCTIONS - See help in the online application.				
SOURCES OF ENERGY (a)	NO. OF PLANTS (b)	CAPACITY (kW) (c)	NET ENERGY RECIEVED BY SYSTEM (MWh) (d)	COST (\$) (e)
Generated in Own Plant (Details on Parts D, E, F IC, F CC, and G)				
1. Fossil Steam	0	0	0	0
2. Nuclear	0	0	0	0
3. Hydro	1	40,710	131,087	2,801,123
4. Combined Cycle	0	0	0	0
5. Internal Combustion	4	19,400	2,281	1,372,702
6. Other				
7. Total in Own Plant (1 thru 6)	5	60,110	133,367	4,173,825
Purchased Power				
8. Total Purchased Power			0	0
Interchanged Power				
9. Received Into System (Gross)				
10. Delivered Out of System (Gross)				
11. Net Interchange (9 - 10)				
Transmission For or By Others - (Wheeling)				
12. Received Into System				
13. Delivered Out of System				
14. Net Energy Wheeled (12 - 13)				
15. Total Energy Available for Sale (7 + 8 + 11 + 14)			133,368	
Distribution of Energy				
16. Total Sales			0	
17. Energy Furnished to Others Without Charge				
18. Energy Used by Borrower (Excluding Station Use)				
19. Total Energy Accounted For (16 thru 18)			0	
Losses				
20. Energy Losses - MWh (15 - 19)			133,368	
21. Energy Losses - Percentage ((20 / 15) * 100)			100.00 %	

**FINANCIAL AND OPERATING REPORT
ELECTRIC POWER SUPPLY
PART E - HYDRO PLANT**

BORROWER DESIGNATION MI0043

PLANT Sault Ste. Marie

PERIOD ENDED December, 2012

INSTRUCTIONS - See help in the online application.

SECTION A. HYDRO GENERATING UNITS

NO.	UNIT NO. (a)	SIZE (kW) (b)	GROSS GENERATION (MWh) (c)	OPERATING HOURS			
				IN SERVICE (d)	ON STANDBY (e)	OUT OF SERVICE	
						SCHEDULED (f)	UNSCHEDULED (g)
1.	10	40,710	131,326.50	8,330		454	
2.							
3.							
4.							
5.							
6.	Total	40,710	131,326.50	8,330	0	454	0
7.	Station Service (MWh)		240.00	HYDRAULIC DATA			
8.	Net Generation (MWh)		131,086.50	ITEM		(a) MAXIMUM	(b) MINIMUM
9.	Station Service % of Gross		.18	1. Pool Elevation (ft.)		600.80	596.50
10.	Energy for Pumped Storage (MWh)			2. Tail Race Elevation (ft.)		578.90	576.00
11.	Net Generation after Pumped Storage (MWh)		131,086.50	Water Spilled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			

SECTION B. LABOR REPORT

SECTION C. FACTORS & MAXIMUM DEMAND

NO.	ITEM	VALUE	NO.	ITEM	VALUE	NO.	ITEM	VALUE
1.	No. Employees Full-Time (Include Superintendent)	10	5.	Maintenance Plant Payroll (\$)	443,311	1.	Load Factor (%)	0.00%
2.	No. Employees Part Time	0	6.	Other Accounts Plant Payroll (\$)	57,488	2.	Plant Factor (%)	36.72%
3.	Total Employee Hours Worked	21,357				4.	15 Min. Gross Max. Demand (kW)	
			7.	Total Plant Payroll (\$)	848,813	5.	Indicated Gross Max. Demand (kW)	
4.	Operating Plant Payroll (\$)	348,014						

SECTION D. COST OF NET ENERGY GENERATED

NO.	PRODUCTION EXPENSE	ACCOUNT NUMBER	AMOUNT (\$) (a)	MILLS/NET kWh (b)
1.	Operation, Supervision and Engineering	535	47,641	
2.	Water for Power	536	785,172	5.98
3.	Energy for Pumped Storage	536.1		
4.	Hydraulic Expense	537	349,401	2.66
5.	Electric Expense	538	372,518	2.84
6.	Miscellaneous Hydraulic Power Generation Expense	539	140,839	1.07
7.	Rents	540		
8.	Operation Expense (1 thru 7)		1,695,571	12.93
9.	Maintenance, Supervision and Engineering	541	13,916	
10.	Maintenance of Structures	542	61,685	
11.	Maintenance of Reservoirs, Dams and Waterways	543	88,112	
12.	Maintenance of Electric Plant	544	397,854	
13.	Maintenance of Miscellaneous Hydraulic Plant	545	45,339	
14.	Maintenance Expense (9 thru 13)		606,906	4.62
15.	Total Production Expense (8 + 14)		2,302,477	17.56
16.	Depreciation	403.3, 411.10	257,193	
17.	Interest	427	241,453	
18.	Total Fixed Cost (16 + 17)		498,646	3.80
19.	Power Cost (15 + 18)		2,801,123	21.36

Remarks (including Unscheduled Outages)

**FINANCIAL AND OPERATING REPORT
ELECTRIC POWER SUPPLY
PART F IC - INTERNAL COMBUSTION PLANT**

BORROWER DESIGNATION
MI0043

PLANT
Dafter

PERIOD ENDED
December, 2012

INSTRUCTIONS - See help in the online application.

SECTION A. INTERNAL COMBUSTION GENERATING UNITS

NO.	UNIT NO. (a)	SIZE (kW) (b)	FUEL CONSUMPTION				OPERATING HOURS					
			OIL (1000 Gals.) (c)	GAS (1000 C.F.) (d)	OTHER (e)	TOTAL (f)	IN SERVICE (g)	ON STANDBY (h)	OUT OF SERVICE		GROSS GENER.(MWh) (k)	BTU PER kWh (l)
			SCHED.		UNSCH.							
			(i)	(j)								
1.	1	1,000	.32				11	8,773			4	
2.	2	1,000							8,784			
3.	3	1,000	.46				12	8,772			6	
4.	4	3,000	37.80				314	8,470			527	
5.	5	3,000	34.00				286	8,102		396	471	
6.	Total	9,000	72.58	0.00	0.00		623	34,117	8,784	396	1,008	
7.	Average BTU		138,700.05				Station Service (MWh)				327.00	
8.	Total BTU (10 ⁶)		10,066.85			10,066.85	Net Generation (MWh)				681.00	
9.	Total Del. Cost (\$)		267,099.00				Station Service % of Gross				32.44	14,782.45

SECTION B. LABOR REPORT

NO.	ITEM	VALUE	NO.	ITEM	VALUE	NO.	ITEM	VALUE
1.	No. Employees Full Time (Include Superintendent)	1	5.	Maintenance Plant Payroll (\$)	86,051	1.	Load Factor (%)	0.00%
2.	No. Employees Part Time		6.	Other Accounts Plant Payroll (\$)	46,071	2.	Plant Factor (%)	1.28%
3.	Total Employee Hours Worked	3,962	7.	Total Plant Payroll (\$)	266,027	3.	Running Plant Capacity Factor (%)	55.29%
4.	Operating Plant Payroll (\$)	133,905				4.	15 Min. Gross Max. Demand (kW)	
						5.	Indicated Gross Max. Demand (kW)	

SECTION D. COST OF NET ENERGY GENERATED

NO.	PRODUCTION EXPENSE	ACCOUNT NUMBER	AMOUNT (\$) (a)	MILLS/NET (kWh) (b)	\$/10 ⁶ BTU (c)
1.	Operation, Supervision and Engineering	546	50,897		
2.	Fuel, Oil	547.1	267,099		
3.	Fuel, Gas	547.2	0		
4.	Fuel, Other	547.3	0		
5.	Energy for Compressed Air	547.4	0	0.00	
6.	Fuel SubTotal (2 thru 5)	547	267,099	392.22	
7.	Generation Expenses	548	82,543		
8.	Miscellaneous Other Power Generation Expenses	549	76,228		
9.	Rents	550	0		
10.	Non-Fuel SubTotal (1 + 7 thru 9)		209,668	307.88	
11.	Operation Expense (6 + 10)		476,767	700.10	
12.	Maintenance, Supervision and Engineering	551	36,369		
13.	Maintenance of Structures	552	0		
14.	Maintenance of Generating and Electric Plant	553	87,857		
15.	Maintenance of Miscellaneous Other Power Generating Plant	554	0		
16.	Maintenance Expense (12 thru 15)		124,226	182.42	
17.	Total Production Expense (11 + 16)		600,993	882.52	
18.	Depreciation	403.4, 411.10	31,917		
19.	Interest	427	29,964		
20.	Total Fixed Cost (18 + 19)		61,881	90.87	
21.	Power Cost (17 + 20)		662,874	973.38	

Remarks (including Unscheduled Outages)

**FINANCIAL AND OPERATING REPORT
ELECTRIC POWER SUPPLY
PART F IC - INTERNAL COMBUSTION PLANT**

BORROWER DESIGNATION
MI0043

PLANT
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PERIOD ENDED
December, 2012

INSTRUCTIONS - See help in the online application.

SECTION A. INTERNAL COMBUSTION GENERATING UNITS

NO.	UNIT NO. (a)	SIZE (kW) (b)	FUEL CONSUMPTION				OPERATING HOURS					
			OIL (1000 Gals.) (c)	GAS (1000 C.F.) (d)	OTHER (e)	TOTAL (f)	IN SERVICE (g)	ON STANDBY (h)	OUT OF SERVICE		GROSS GENER.(MWh) (k)	BTU PER kWh (l)
			SCHED.		UNSCH.							
			(i)		(j)							
1.	1	3,000	33.70				261	7,515		1,008	381	
2.	2	3,000	39.75				308	8,476			538	
3.												
4.												
5.												
6.	Total	6,000	73.45	0.00	0.00		569	15,991	0	1,008	919	
7.	Average BTU		138,700.06				Station Service (MWh)				193.00	
8.	Total BTU (10 ⁶)		10,187.52			10,187.52	Net Generation (MWh)				726.00	
9.	Total Del. Cost (\$)		260,272.00				Station Service % of Gross				21.00	14,032.40

SECTION B. LABOR REPORT

SECTION C. FACTORS & MAXIMUM DEMAND

NO.	ITEM	VALUE	NO.	ITEM	VALUE	NO.	ITEM	VALUE
1.	No. Employees Full Time (Include Superintendent)	0	5.	Maintenance Plant Payroll (\$)	9,605	1.	Load Factor (%)	0.00%
2.	No. Employees Part Time	1	6.	Other Accounts Plant Payroll (\$)	4,347	2.	Plant Factor (%)	1.74%
3.	Total Employee Hours Worked	623	7.	Total Plant Payroll (\$)	49,255	3.	Running Plant Capacity Factor (%)	53.84%
4.	Operating Plant Payroll (\$)	35,303				4.	15 Min. Gross Max. Demand (kW)	
						5.	Indicated Gross Max. Demand (kW)	

SECTION D. COST OF NET ENERGY GENERATED

NO.	PRODUCTION EXPENSE	ACCOUNT NUMBER	AMOUNT (\$) (a)	MILLS/NET (kWh) (b)	\$/10 ⁶ BTU (c)
1.	Operation, Supervision and Engineering	546	0		
2.	Fuel, Oil	547.1	260,272		
3.	Fuel, Gas	547.2	0		
4.	Fuel, Other	547.3	0		
5.	Energy for Compressed Air	547.4	0	0.00	
6.	Fuel SubTotal (2 thru 5)	547	260,272	358.50	
7.	Generation Expenses	548	57,083		
8.	Miscellaneous Other Power Generation Expenses	549	5,377		
9.	Rents	550	0		
10.	Non-Fuel SubTotal (1 + 7 thru 9)		62,460	86.03	
11.	Operation Expense (6 + 10)		322,732	444.53	
12.	Maintenance, Supervision and Engineering	551	99		
13.	Maintenance of Structures	552	0		
14.	Maintenance of Generating and Electric Plant	553	18,620		
15.	Maintenance of Miscellaneous Other Power Generating Plant	554	0		
16.	Maintenance Expense (12 thru 15)		18,719	25.78	
17.	Total Production Expense (11 + 16)		341,451	470.32	
18.	Depreciation	403.4, 411.10	1,784		
19.	Interest	427	1,675		
20.	Total Fixed Cost (18 + 19)		3,459	4.76	
21.	Power Cost (17 + 20)		344,910	475.08	

Remarks (including Unscheduled Outages)

**FINANCIAL AND OPERATING REPORT
ELECTRIC POWER SUPPLY
PART F IC - INTERNAL COMBUSTION PLANT**

BORROWER DESIGNATION
MI0043

PLANT
Manistique

PERIOD ENDED
December, 2012

INSTRUCTIONS - See help in the online application.

SECTION A. INTERNAL COMBUSTION GENERATING UNITS

NO.	UNIT NO. (a)	SIZE (kW) (b)	FUEL CONSUMPTION				OPERATING HOURS					
			OIL (1000 Gals.) (c)	GAS (1000 C.F.) (d)	OTHER (e)	TOTAL (f)	IN SERVICE (g)	ON STANDBY (h)	OUT OF SERVICE		GROSS GENER.(MWh) (k)	BTU PER kWh (l)
			SCHED. (i)		UNSCH. (j)							
1.	2	2,400	48.00				289	8,328		167	633	
2.												
3.												
4.												
5.												
6.	Total	2,400	48.00	0.00	0.00		289	8,328	0	167	633	
7.	Average BTU		138,700.00				Station Service (MWh)			110.90		
8.	Total BTU (10 ⁶)		6,657.60			6,657.60	Net Generation (MWh)			521.80		
9.	Total Del. Cost (\$)		158,638.00				Station Service % of Gross			17.53	12,758.91	

SECTION B. LABOR REPORT

NO.	ITEM	VALUE	NO.	ITEM	VALUE	NO.	ITEM	VALUE
1.	No. Employees Full Time (Include Superintendent)		5.	Maintenance Plant Payroll (\$)	1,029	1.	Load Factor (%)	0.00%
2.	No. Employees Part Time	1	6.	Other Accounts Plant Payroll (\$)	570	2.	Plant Factor (%)	3.00%
3.	Total Employee Hours Worked	144	7.	Total Plant Payroll (\$)	7,499	3.	Running Plant Capacity Factor (%)	91.22%
4.	Operating Plant Payroll (\$)	5,900				4.	15 Min. Gross Max. Demand (kW)	
						5.	Indicated Gross Max. Demand (kW)	

SECTION D. COST OF NET ENERGY GENERATED

NO.	PRODUCTION EXPENSE	ACCOUNT NUMBER	AMOUNT (\$) (a)	MILLS/NET (kWh) (b)	\$/10 ⁶ BTU (c)
1.	Operation, Supervision and Engineering	546	19,123		
2.	Fuel, Oil	547.1	151,397		
3.	Fuel, Gas	547.2	0		
4.	Fuel, Other	547.3	0		
5.	Energy for Compressed Air	547.4	0	0.00	
6.	Fuel SubTotal (2 thru 5)	547	151,397	290.14	
7.	Generation Expenses	548	18,209		
8.	Miscellaneous Other Power Generation Expenses	549	1,098		
9.	Rents	550	0		
10.	Non-Fuel SubTotal (1 + 7 thru 9)		38,430	73.65	
11.	Operation Expense (6 + 10)		189,827	363.79	
12.	Maintenance, Supervision and Engineering	551	0		
13.	Maintenance of Structures	552	0		
14.	Maintenance of Generating and Electric Plant	553	13,844		
15.	Maintenance of Miscellaneous Other Power Generating Plant	554	0		
16.	Maintenance Expense (12 thru 15)		13,844	26.53	
17.	Total Production Expense (11 + 16)		203,671	390.32	
18.	Depreciation	403.4, 411.10	777		
19.	Interest	427	730		
20.	Total Fixed Cost (18 + 19)		1,507	2.89	
21.	Power Cost (17 + 20)		205,178	393.21	

Remarks (including Unscheduled Outages)

**FINANCIAL AND OPERATING REPORT
ELECTRIC POWER SUPPLY
PART F IC - INTERNAL COMBUSTION PLANT**

BORROWER DESIGNATION
MI0043

PLANT
Manistique

PERIOD ENDED
December, 2012

INSTRUCTIONS - See help in the online application.

SECTION A. INTERNAL COMBUSTION GENERATING UNITS

NO.	UNIT NO. (a)	SIZE (kW) (b)	FUEL CONSUMPTION				OPERATING HOURS					
			OIL (1000 Gals.) (c)	GAS (1000 C.F.) (d)	OTHER (e)	TOTAL (f)	IN SERVICE (g)	ON STANDBY (h)	OUT OF SERVICE		GROSS GENER.(MWh) (k)	BTU PER kWh (l)
			SCHED. (i)	UNSCH. (j)								
1.	1	2,000	33.66				225	7,112		1,447	438	
2.												
3.												
4.												
5.												
6.	Total	2,000	33.66	0.00	0.00		225	7,112	0	1,447	438	
7.	Average BTU		138,700.23				Station Service (MWh)				86.00	
8.	Total BTU (10 ⁶)		4,668.65				Net Generation (MWh)				351.70	
9.	Total Del. Cost (\$)		110,629.00				Station Service % of Gross				19.65	13,274.52

SECTION B. LABOR REPORT

SECTION C. FACTORS & MAXIMUM DEMAND

NO.	ITEM	VALUE	NO.	ITEM	VALUE	NO.	ITEM	VALUE
1.	No. Employees Full Time (Include Superintendent)		5.	Maintenance Plant Payroll (\$)	801	1.	Load Factor (%)	0.00%
2.	No. Employees Part Time	1	6.	Other Accounts Plant Payroll (\$)	444	2.	Plant Factor (%)	2.49%
3.	Total Employee Hours Worked	112	7.	Total Plant Payroll (\$)	5,839	3.	Running Plant Capacity Factor (%)	97.27%
4.	Operating Plant Payroll (\$)	4,594				4.	15 Min. Gross Max. Demand (kW)	
						5.	Indicated Gross Max. Demand (kW)	

SECTION D. COST OF NET ENERGY GENERATED

NO.	PRODUCTION EXPENSE	ACCOUNT NUMBER	AMOUNT (\$) (a)	MILLS/NET (kWh) (b)	\$/10 ⁶ BTU (c)
1.	Operation, Supervision and Engineering	546	14,888		
2.	Fuel, Oil	547.1	117,870		
3.	Fuel, Gas	547.2	0		
4.	Fuel, Other	547.3	0		
5.	Energy for Compressed Air	547.4	0	0.00	
6.	Fuel SubTotal (2 thru 5)	547	117,870	335.14	
7.	Generation Expenses	548	14,176		
8.	Miscellaneous Other Power Generation Expenses	549	855		
9.	Rents	550	0		
10.	Non-Fuel SubTotal (1 + 7 thru 9)		29,919	85.07	
11.	Operation Expense (6 + 10)		147,789	420.21	
12.	Maintenance, Supervision and Engineering	551	0		
13.	Maintenance of Structures	552	0		
14.	Maintenance of Generating and Electric Plant	553	10,778		
15.	Maintenance of Miscellaneous Other Power Generating Plant	554	0		
16.	Maintenance Expense (12 thru 15)		10,778	30.65	
17.	Total Production Expense (11 + 16)		158,567	450.86	
18.	Depreciation	403.4, 411.10	605		
19.	Interest	427	568		
20.	Total Fixed Cost (18 + 19)		1,173	3.34	
21.	Power Cost (17 + 20)		159,740	454.19	

Remarks (including Unscheduled Outages)

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

**FINANCIAL AND OPERATING REPORT
ELECTRIC POWER SUPPLY
PART H - ANNUAL SUPPLEMENT**

BORROWER DESIGNATION

MI0043

PERIOD ENDED

December, 2012

INSTRUCTIONS - See help in the online application.

SECTION L. RENEWABLE ENERGY CREDITS

ITEM	BALANCE BEGINNING OF YEAR <i>(a)</i>	ADDITIONS <i>(b)</i>	RETIREMENTS <i>(c)</i>	ADJUSTMENTS AND TRANSFER <i>(d)</i>	BALANCE END OF YEAR <i>(e)</i>
1. Renewable Energy Credits	871,818	326,973	318,585	49,924	930,130

RUS Financial and Operating Report Electric Power Supply – Part H - Annual Supplement

Revision Date 2010

MICHIGAN PUBLIC SERVICE COMMISSION

ADDITIONAL SCHEDULES FOR AN ELECTRIC UTILITY COOPERATIVE

This form is authorized by Case No. U-12134, the Code of Conduct.
Filing of this form is mandatory.

Report submitted for year ending: December 31, 2012
Present name of respondent: Cloverland Electric Cooperative
Address of principal place of business: 2916 W. M-28, Dafter, MI 49724
Utility representative to whom inquires regarding this report may be directed: Name: Lois Kenney, CPA, CMA Title: Director of Human Resources Address: 725 E. Portage Avenue City: Sault Ste Marie State: MI Zip: 49783 Direct Telephone, Include Area Code: 906-632-5180
If the utility name has been changed during the past year: Prior Name: Date of Change:
Two copies of the published annual report to stockholders: [N/A] were forwarded to the Commission [] will be forwarded to the Commission on or about
Annual reports to stockholders: [N/A] are published [] are not published

FOR ASSISTANCE IN COMPLETION OF THIS FORM:

Contact the Michigan Public Service Commission (Heather Cantin) at
(517) 241-0967 or cantinh@michigan.gov OR forward correspondence to:

DLARA/MPSC
Financial Analysis & Audit Division (Heather Cantin)
4300 W Saginaw Hwy
Lansing, MI 48917

Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 4/30/2013	Year of Report December 31, 2012
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IMPORTANT CHANGES DURING THE YEAR

Give particulars (details) concerning the matters indicated below. Make the statements explicit and precise, and number them in accordance with the inquiries. Each inquiry should be answered. Enter "none", "not acceptable" or "NA" where applicable. If information which answers an inquiry is given elsewhere in the report, make a reference to the schedule in which it appears.

1. Changes in and important additions to franchise rights: Describe the actual consideration given therefor and state from whom the franchise rights were acquired. If acquired without the payment of consideration, state that fact. **N/A**
2. Acquisition of ownership in other companies by reorganization, merger, or consolidation with other companies: Give names of companies involved, particulars concerning the transactions, name of the Commission authorizing the transaction, and reference to Commission authorization. **N/A**
3. Purchase or sale of an operating unit or system: Give a brief description of the property, and of the transactions relating thereto, and reference to Commission authorization, if any was required. Give date journal entries called for by the Uniform System of Accounts were submitted to the Commission. **N/A**
4. Important leaseholds (other than leaseholds for natural gas lands) that have been acquired or given, assigned or surrendered: Give effective dates, lengths of terms, names of parties, rents and other conditions. State name of Commission authorizing lease and give reference to such authorization. **N/A**
5. Important extension or reduction of transmission or distribution system: State territory added or relinquished and date operations began or ceased and give reference to Commission authorization, if any was required. State also the approximate number of customers added or lost and approximate annual revenues of each class of service. Each natural gas company must also state major new continuing sources of gas made available to it from purchases, development, purchase contract or otherwise, giving location and approximate total gas volumes available, period of contracts, and other parties to any such arrangements etc. **N/A**
6. Obligations incurred as a result of issuance of securities or assumption of liabilities or guarantees including issuance of short-term debt and commercial paper having a maturity of one year or less. Give reference to FERC or State Commission authorization, as appropriate, and the amount of obligation or guarantee. **N/A**
7. Changes in articles of incorporation or amendments to charter: Explain the nature and purpose of such changes or amendments. **N/A**
8. State the estimated annual effect and nature of any important wage scale changes during the year. **N/A**
9. State briefly the status of any materially important legal proceedings pending at the end of the year, and the results of any such proceedings culminated during the year. **N/A**
10. Describe briefly and materially important transactions of the respondent not disclosed elsewhere in this report in which an officer, director, security holder reported on page 106, voting trustee, associated company or known associate of any of these persons was a party or in which any such person had a material interest. **N/A**
11. (Reserved.)
12. If the important changes during the year relating to the respondent company appearing in the annual report to stockholders are applicable in every respect and furnish the data required by instruction 1 to 11 above, such notes may be attached to this page.

Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 4/30/2013	Year of Report December 31, 2012
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STATEMENT OF CASH FLOWS

1. If the notes to the cash flow statement in the respondent's annual stockholders report are applicable to this statement, such notes should be included on pages 122-123. Information about noncash investing and financing activities should be provided on pages 122-123. "Cash and Cash Equivalents at End of Year" with related amounts on the balance sheet.
2. Under "Other" specify significant amounts and group others.
3. Operating Activities-Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show on pages 122-123 the amounts of interest paid (net of amounts capitalized) and income taxes paid.

Line No.	Description (See instructions for Explanation of Codes) (a)	Amounts (b)
1	Net Cash Flow from Operating Activities: (enter outflows from company as negative #s)	
2	Net Income (Line 72 (c) on page 117)	1,634,506
3	Noncash Charges (Credits) to Income:	
4	Depreciation and Depletion	4,277,110
5	Amortization of (Specify)	
6	Intangible Plant	
7		
8	Deferred Income Taxes (Net)	
9	Refunds payable to members	
10	Net (Increase) Decrease in Receivables	764,789
11	Current and Accrued Assets	(336,589)
12	Accrued Post retirement benefits and other than pensions	(52,231)
13	Net (Increase) Decrease in Payables and Accrued Expenses	(1,301,103)
14	Refundable Power Costs	1,581,498
15	Accrued Interest Payable	212,663
16	Current and Accrued Liabilities other	(22,451)
17	(Less) Undistributed Earnings from Subsidiary Companies	(868,651)
18	Other: Capital Credits	(222,385)
19	Patronage capital refunds applied to billing and bad debt	(176,743)
20	Loss (Gain) on sales of fixed assets	(37,190)
21	(Income) loss on investment in wholly owned subsidiary	1,419
22	Net Cash Provided by (Used in) Operating Activities (Total of lines 2 thru 21)	5,454,643
23		
24	Cash Flows from Investment Activities:	
25	Construction and Acquisition of Plant (including land):	
26	Gross Additions to Utility Plant (less nuclear fuel)	(14,387,242)
27	(Increase) Decrease in Materials Inventory	(165,550)
28	Gross Additions to Common Utility Plant	
29	Gross Additions to Nonutility Plant	
30	(Less) Allowance to Other Funds Used During Construction	
31	Other: (Plant Removal)	(206,636)
32		
33		
34	Cash Outflows for Plant (Total of lines 26 thru 33)	(14,759,428)
35		
36	Acquisition of Other Noncurrent Assets (d)	
37	Proceeds from Disposal of Noncurrent Assets (d)	
38		
39	Investments in and Advances to Assoc. and Subsidiary Companies	698,221
40	Receivables from Wholly Owned Subsidiary	7,331
41	Disposition of Investments in (and Advances to)	
42	Associated and Subsidiary Companies	
43		
44	Purchase of Investment Securities (a)	
45	Proceeds from Sales of Investment Securities (a)	

Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 4/30/2013	Year of Report December 31, 2012
STATEMENT OF CASH FLOWS (Continued)			
4. Investing Activities (a) Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of asset acquired with liabilities assumed on pages 122-123. (b) Do not include on this statement the dollar amount of leases capitalized per USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost on pages 122-123.		5. Codes used: (a) Net proceeds or payments. (b) Bonds, debentures and other long-term debt. (c) Include commercial paper. (d) Identify separately such items as investments, fixed assets, intangibles, etc. 6. Enter on pages 122-123 clarifications and explanations.	
Line No.	Description (See instructions for Explanation of Codes) (a)	Amount (b)	
46	Loans Made or Purchased		
47	Collections on Loans		
48			
49	Net (Increase) Decrease in Receivables		
50	Net (Increase) Decrease in Inventory		
51	Net (Increase) Decrease in Allowances Held for Speculation		
52	Net Increase (Decrease) in Payables and Accrued Expenses		
53	Other:		
54			
55			
56	Net Cash Provided by (Used in) Investing Activities		
57	(Total of lines 34 thru 55)	(14,053,876)	
58			
59	Cash Flows from Financing Activities:		
60	Proceeds from Issuance of:		
61	Long Term Debt (b)	2,695,000	
62	Preferred Stock		
63	Common Stock		
64	Other:		
65			
66	Net Increase in Short-Term Debt (c)	4,500,000	
67	Other:		
68			
69			
70	Cash Provided by Outside Sources (Total of lines 61 thru 69)	7,195,000	
71			
72	Payments for Retirement of:		
73	Long Term Debt (b)	(1,524,386)	
74	Preferred Stock		
75	Common Stock		
76	Other: Retirement of Patronage Capital Credits	(838,487)	
77	Donated Capital	15,796	
78	Net Decrease in Short-Term Debt (c)	202,082	
79	Memberships Issued, net	8,730	
80	Decrease in Deferred Debits	11,500	
81	Dividends on Common Stock		
82	Net Cash Provided by (Used in) Financing Activities		
83	(Total of lines 70 thru 81)	5,070,235	
84			
85	Net Increase (Decrease) in Cash and Cash Equivalents		
86	(Total of lines 22, 57 and 83)	(3,528,998)	
87			
88	Cash and Cash Equivalents at Beginning of Year	3,822,792	
89			
90	Cash and Cash Equivalents at End of Year	293,794	

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NONUTILITY PROPERTY (Account 121)

- | | |
|---|---|
| <p>1. Give a brief description and state the location of nonutility property included in Account 121.</p> <p>2. Designate with a double asterisk any property which is leased to another company. State name of lessee and whether lessee is an associated company.</p> <p>3. Furnish particulars (details) concerning sales, purchases, or transfers of Nonutility Property during the year.</p> | <p>4. List separately all property previously devoted to public service and give date of transfer to Account 121, Nonutility Property.</p> <p>5. Minor items (5% of the Balance at the End of the Year for Account 121 or \$100,000, whichever is less) may be grouped by (1) previously devoted to public service, or (2) other nonutility property.</p> |
|---|---|

Line No.	Description and Location (a)	Balance at Beginning of Year (b)	Purchases, Sales Transfers, etc. (c)	Balance at End of Year (d)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
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14				
15				
16				
17				
	TOTAL			

ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF NONUTILITY PROPERTY (Account 122)

Report below the information called for concerning depreciation and amortization of nonutility property.

Line No.	Item (a)	Amount (b)
1	Balance, Beginning of Year	
2	Accruals for Year, Charged to	
3	(417) Income from Nonutility Operations	
4	(418) Nonoperating Rental Income	
5	Other Accounts (Specify):	
6		
7	TOTAL Accruals for Year (Enter Total of lines 3 thru 6)	
8	Net Charges for Plant Retired:	
9	Book Cost of Plant Retired	
10	Cost of Removal	
11	Salvage (Credit)	
12	TOTAL Net Charges (Enter Total of lines 9 thru 11)	
13	Other Debit or Credit Items (Describe):	
14		
15	Balance, End of Year (Enter Total of lines 1, 7, 12, and 14)	

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INVESTMENTS (Accounts 123, 124, 136)

1. Report below the investments in Accounts 123, *Investments in Associated Companies*, 124, *Other Investment*, and 136, *Temporary Cash Investments*.
 2. Provide a subheading for each account and list thereunder the information called for:
 (a) Investment in securities - List and describe each security owned, giving name of user, date acquired and date of maturity. For bonds, also give principal amount, date of issue, maturity, and interest rate. For capital stock (including capital stock of respondent reacquired under a definite plan for resale pursuant to authorization by the Board of Directors, and included
 in Account 124, *Other Investments*), state number of shares, class, and series of stock. Minor investments may be grouped by classes. Investments included in Account 136, *Temporary Cash Investments*, also may be grouped by classes.
 (b) Investment Advances-Report separately for each person or company the amounts of loans or investment advances which are properly includable in Account 123. Advances subject to current repayment should be included in Accounts 145 and 146. With respect to each advance, show whether the advance is a note or an open account. Each note should be

Line No.	Description of Investment (a)	Book Cost at Beginning of Year <i>(If book cost is different from cost to respondent, give cost to respondent in a footnote and explain difference)</i> (b)		Purchases or Additions During Year (c)
		Original Cost	Book Value	
1	Lighthouse.Net	225,000	225,000	
2	NRUCFC	263,850	263,850	17,315
3	NISC	87,410	87,410	18,751
4	RESCO	166,262	166,262	39,451
5	NRTC	823	823	
6	CRC	16,886	16,886	
7	CoBank	738,087	738,087	94,890
8	Federated Insurance	213,537	213,537	51,977
9	CFC-Capital Term Certificates	859,585	859,585	
10	MECA	30,077	30,077	
11	CFC Membership	1,000	1,000	
12	ATC - Invest in Associated Org.	7,344,419	7,344,419	868,651
13	ATC - True up	2,560	2,560	
14	Credit Union	10	10	
15	Passport Account-Edward Jones	3,681	3,681	
16				
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Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/13	Year of Report December 31, 2012
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INVESTMENTS (Accounts 123, 124, 136) (Cont'd)

listed giving date of issuance, maturity date, and specifying whether note is a renewal. Designate any advances due from officers, directors, stockholders, or employees. Exclude amounts reported on page 229.

3. For any securities, notes or accounts that were pledged designate with an asterisk such securities, notes, or accounts and in a footnote state the name of pledgee and purpose of the pledge.

4. If Commission approval was required for any advance made or security acquired, designate such fact in a footnote and give name of Commission, date of authorization, and case or docket number.

5. Report in column (g) interest and dividend revenues from investments including such revenues from securities disposed of during the year.

6. In column (h) report for each investment disposed of during the year the gain or loss represented by the difference between cost of the investment (or the other amount at which carried in the books of account if different from cost) and the selling price thereof, not including any dividend or interest adjustment includible in column (g).

Sales or Other Dispositions During Year (d)	Principal Amount or No. of Shares at End of Year (e)	Book Cost at End of Year (If book cost is different from cost to respondent, give cost to respondent in a footnote and explain difference) (f)		Revenues for Year (g)	Gain of Loss from Improvement Disposed of (h)	Line No.
		Original Cost	Book Value			
0	N/A	225,000	225,000			1
0	N/A	272,507	272,507	8,658		2
0	N/A	102,054	102,054	4,107		3
0	N/A	189,334	189,334	16,379		4
0	N/A	776	776	46		5
0	N/A	16,286	16,286	600		6
0	N/A	470,068	470,068	362,909		7
0	N/A	246,723	246,723	18,791		8
0	N/A	849,796	849,796	9,789		9
0	N/A	30,077	30,077			10
0	N/A	1,000	1,000			11
0	N/A	8,001,106	8,001,106	578,571		12
0	N/A	2,560	2,560			13
0	N/A	10	10			14
0	N/A	3,681	3,681			15
						16
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RECEIVABLES FROM ASSOCIATED COMPANIES (Accounts 145, 146)

- | | |
|---|--|
| <p>1. Report particulars of notes and accounts receivable from associated companies* at end of year.</p> <p>2. Provide separate headings and totals for Accounts 145, Notes Receivable from Associated Companies, and 146, Accounts Receivable from Associated Companies, in addition to a total for the combined accounts.</p> <p>3. For notes receivable, list each note separately and state purpose for which received. Show also in column (a) date of note, date of maturity and interest rate.</p> | <p>4. If any note was received in satisfaction of an open account, state the period covered by such open account.</p> <p>5. Include in column (f) interest recorded as income during the year including interest on accounts and notes held any time during the year.</p> <p>6. Give particulars of any notes pledged or discounted, also of any collateral held as guarantee of payment of any note or account.</p> |
|---|--|

* NOTE: "Associated companies" means companies or persons that, directly or indirectly, through one or more intermediaries, control, or are controlled by, or are under common control with, the account company. This includes related parties.

"Control" (including the terms "controlling," "controlled by," and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement, and whether such power is established through a majority or minority ownership or voting of securities, common directors, officers or stockholders, voting trusts, holding trusts, associated companies, contract or any other direct or indirect means.

Line No.	Particulars (a)	Balance Beginning of Year (b)	Totals for Year		Balance End of Year (e)	Interest for Year (f)
			Debits (c)	Credits (d)		
1						
2						
3						
4						
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22						
23						
24						
25	TOTAL					

Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/13	Year of Report December 31, 2012
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ALLOWANCES

- | | |
|--|--|
| <p>1. Report below the details called for concerning allowances.
 2. Report all acquisitions of allowances at cost.
 3. Report allowances in accordance with a weighted average cost allocation method and other accounting as prescribed by General Instruction No. 21 in the Uniform System of Accounts.
 4. Report the allowances transactions by the period they are first</p> | <p>eligible for use; the current year;s allowances in columns (b)-(c), allowances for the three succeeding years in column(d)-(i), starting with the following year, and allowances for the remaining succeeding years in columns (j)-(k).
 5. Report on line 4 the Environmental Protection Agency (EPA) issued allowances. Report withheld portions on lines 36-40.</p> |
|--|--|

Line No.	Allowance Inventory (a)	Current Year		20__	
		No. (b)	Amt. (c)	No. (d)	Amt. (e)
1	Balance - Beginning of Year				
2-4	Acquired During Year: Issued (Less Withheld Allow.)				
5	Returned by EPA				
6-8	Purchases/Transfers:				
9					
10					
11					
12					
13					
14					
15	Total				
16-18	Relinquished During Year: Charges to Acct. 509				
19	Other:				
20					
21-22	Cost of Sales/Transfers:				
23					
24					
25					
26					
27					
28	Total				
29	Balance - End of Year				
30-32	Sales:				
	Net Sales Proceeds (Assoc Co.)				
33	Net Sales Proceeds (Other)				
34	Gains				
35	Losses				
	Allowances Withheld				
36	Balance - Beginning of Year				
37	Add: Withheld by EPA				
38	Deduct: Returned by EPA				
39	Cost of Sales				
40	Balance - End of Year				
41-43	Sales:				
	Net Sales Proceeds (Assoc. Co.)				
44	Net Sales Proceeds (Other)				
45	Gains				
46	Losses				

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ALLOWANCES (Continued)

6. Report on line 5 allowances returned by the EPA. Report on line 39 the EPA's sales of the withheld allowances. Report on lines 43-46 the net sales or auction of the withheld allowances.

7. Report on lines 8-14 the names of vendors/transfersors of allowances acquired and identify associated companies (See "associated co." under "Definitions" in Uniform System of Accounts).

8. Report on lines 22-27 the names of purchasers/transfersors of allowances disposed of and identify associated companies.

9. Report the net costs and benefits of hedging transactions on a separate line under purchases/transfers and sales/transfers.

10. Report on lines 32-35 & 43-46 the net sales proceeds and gains or losses from allowance sales.

20__		20__		Future Years		Totals		Line No.
No. (f)	Amt. (g)	No. (h)	Amt. (i)	No. (j)	Amt. (k)	No. (l)	Amt. (m)	
								1
								2-4
								5
								6-8
								9
								10
								11
								12
								13
								14
								15
								16-18
								19
								20
								21-22
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								26
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								28
								29
								30-32
								33
								34
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								41-43
								44
								45
								46

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LONG-TERM DEBT (Accounts 221, 222, 223 and 224)

1. Report by balance sheet account the particulars (details) concerning long-term debt included in Accounts 221, Bonds, 222, Reacquired Bonds, 223, Advances from Associated Companies, and 224, Other Long-Term Debt.
2. In column (a), for new issues, give Commission authorization numbers and dates.
3. For bonds assumed by the respondent, include in column (a) the name of the issuing company as well as a description of the bonds.
4. For advances from Associated Companies, report separately advances on notes and advances on open accounts. Designate demand notes as such. Include in column (a) names of associated companies from which advances were received.
5. For receivers' certificates, show in column (a) the name of the court and date of court order under which such certificates were issued.
6. In column (b) show the principal amount of bonds or other long-term debt originally issued.
7. In column (c) show the expense, premium or discount with respect to the amount of bonds or other long-term debt originally issued.
8. For column (c) the total expenses should be listed first for each issuance, then the amount of premium (in parentheses) or discount. Indicate the premium or discount with a notation, such as (P) or (D). The expenses, premium or discount should not be netted.
9. Furnish in a footnote particulars (details) regarding the treatment of unamortized debt expense, premium or discount associated with issues redeemed during the year. Also, give in a footnote the date of the Commission's authorization of treatment other than as specified by the Uniform System of Accounts.

Line No.	Class and Series of Obligation, Coupon Rate <i>(For new issue, give Commission Authorization numbers and dates)</i> (a)	Principal Amount of Debt Issued (b)	Total Expense, Premium or Discount (c)
1	FFB	70,394,814	31,543,000
2	RUS	26,409,307	788,000
3	NRUCFC	5,859,242	831,500
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25	TOTAL		

Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/13	Year of Report December 31, 2012
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LONG-TERM DEBT (Accounts 221, 222, 223 and 224) (Continued)

10. Identify separate undisposed amounts applicable to issues which were redeemed in prior years.
11. Explain any debits and credits other than amortization debited to Account 428, Amortization of Debt-Discout and Expense, or credited to Account 429, *Amortization of Premium on Debt-Credit*.
12. In a footnote, give explanatory particulars (details) for Accounts 223 and 224 of net changes during the year. With respect to long-term advances, show for each company: (a) principal advanced during year, (b) interest added to principal amount, and (c) principal repaid during year. Give Commission authorization numbers and dates.
13. If the respondent has pledged any of its long-term debt securities give particulars (details) in a footnote including name of pledgee and purpose of the pledge.
14. If the respondent has any long-term debt securities which have been nominally issued and are nominally outstanding at end of year, describe such securities in a footnote.
15. If interest expense was incurred during the year on any obligations retired or reacquired before end of year, include such interest expense in column (i). Explain in a footnote any difference between the total of column (i) and the total of Account 427, *Interest on Long-Term Debt*, and Account 430, *Interest on Debt to Associated Companies*.
16. Give particulars (details) concerning any long-term debt authorized by a regulatory commission but not yet issued.

Nominal Date of Issue (d)	Date of Maturity (e)	AMORTIZATION PERIOD		Outstanding <i>(Total amount outstanding without reduction for amounts held by respondent)</i> (h)	Interest for Year Amount (i)	Line No.
		Date From (f)	Date To (g)			
						1
						2
						3
						4
						5
						6
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PAYABLES TO ASSOCIATED COMPANIES* (Accounts 233, 234)

1. Report particulars of notes and accounts payable to associated companies at end of year.
2. Provide separate totals for Accounts 233, Notes Payable to Associated Companies, and 234, Accounts Payable to Associated Companies, in addition to total for the combined accounts.
3. List each note separately and state the purpose for which issued. Show also in column (a) date of note, maturity and interest rate.
4. Include in column (f) the amount of any interest expense during the year on notes or accounts that were paid before the end of the year.
5. If collateral has been pledged as security to the payment of any note or account, describe such collateral.

***See definition on page 226B**

Line No.	Particulars (a)	Balance Beginning of Year (b)	Totals for Year		Balance End of Year (e)	Interest for Year (f)
			Debits (c)	Credits (d)		
1						
2						
3						
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23						
	TOTAL					

Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/13	Year of Report December 31, 2012
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RECONCILIATION OF REPORTED NET INCOME WITH TAXABLE INCOME FOR FEDERAL INCOME TAXES

1. Report the reconciliation of reported net income for the year with taxable income used in computing Federal income tax accruals and show computation of such tax accruals. Include in the reconciliation, as far as practicable, the same detail as furnished on Schedule M-1 of the tax return for the year. Submit a reconciliation even though there is no taxable income for the year. Indicate clearly the nature of each reconciling amount.

2. If the utility is a member of a group which files a consolidated Federal tax return, reconcile reported net income with taxable net income as if a separate return were to be filed, indicating, however, intercompany amounts to be eliminated in such a consolidated return. State names of group members, tax assigned to each group member, and basis of allocation, assignment, or sharing of the consolidated tax among the group members.

Line No.		TOTAL AMOUNT
1	Utility net operating income (page 114 line 20)	
2	Allocations: Allowance for funds used during construction	
3	Interest expense	
4	Other (specify)	
5	Net income for the year (page 117 line 68)	
6	Allocation of Net income for the year	
7	Add: Federal income tax expenses	
8		
9	Total pre-tax income	
10		
11	Add: Taxable income not reported on books:	
12		
13		
14		
15	Add: Deductions recorded on books not deducted from return	
16		
17		
18		
19	Subtract: Income recorded on books not included in return:	
20		
21		
22		
23	Subtract: Deductions on return not charged against book income:	
24		
25		
26	Federal taxable income for the year	

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RECONCILIATION OF REPORTED NET INCOME WITH TAXABLE INCOME FOR FEDERAL INCOME TAXES (Continued)

3. Allocate taxable income between utility and other income as required to allocate tax expense between 409.1 and 409.2
4. A substitute page, designed to meet a particular need of a company, may be used as long as data is consistent and meets the requirements of the above instructions.

Utility	Other	Line No.
		1
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		26

Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/13	Year of Report December 31, 2012
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GAIN OR LOSS ON DISPOSITION OF PROPERTY (Account 421.1 and 421.2)

1. Give a brief description of property creating the gain or loss. Include name of party acquiring the property (when acquired by another utility or associated company) and the date transaction was completed. Identify property by type: Leased, Held for Future Use, or Nonutility.
2. Individual gains or losses relating to property with an original cost of less than \$100,000 may be grouped with the number of such transactions disclosed in column (a).
3. Give the date of Commission approval of journal entries in column (b), when approval is required. Where approval is required but has not been received, give explanation following the item in column (a). (See account 102, Utility Plant Purchased or Sold.)

Line No.	Description of Property (a)	Original Cost of Related Property (b)	Date Journal Entry Approved (When Required) (c)	Account 421.1 (d)	Account 421.2 (e)
1	Gain on disposition of property:				
2	Snowmobiles	4,371		625.00	
3	Boat Motors	Unknown		2,400.00	
4	Trailer	Unknown		1,235.00	
5	Truck	37,123		1,513.20	
6	Truck box	Unknown		500.00	
7	Truck	41,133		6,786.15	
8	Trailer	Unknown		710.40	
9	2 Truck Beds	Unknown		1,000.00	
10	Radio Trade-ins	Unknown		13,920.00	
11	Bucket Truck	87,098		8,500.00	
12					
13	Items with "Unknown" cost are assets				
14	acquired in May, 2010 with the purchase				
15	of Edison Sault Electric.				
16					
17	Total Gain				

Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/13	Year of Report December 31, 2012
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GAIN OR LOSS ON DISPOSITION OF PROPERTY (Account 421.1 and 421.2) (Continued)

--	--	--	--	--	--

Line No.	Description of Property (a)	Original Cost of Related Property (b)	Date Journal Entry Approved (When Required) (c)	Account 421.1 (d)	Account 421.2 (e)
18	Loss on disposition of property:				
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34	Total Loss				

Name of Respondent	This Report Is: (1) <input type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/13	Year of Report December 31, 2012		
CHARGES FOR OUTSIDE PROFESSIONAL AND OTHER CONSULTATIVE SERVICES					
<p>1. Report the information specified below for all charges made during the year included in any account (including plant accounts) for outside consultative and other professional services. (These services include rate, management, construction, engineering research, financial, valuation, legal, accounting, purchasing, advertising, labor relations, and public relations, rendered the respondent under written or oral arrangement, for which aggregate payments were made during the year to any corporation, partnership, organization of any kind, or individual (other than for services as an employee or for payments made for medical and related services), amounting to more than \$25,000, including payments for legislative services, except those which should be reported in Account</p>		<p>426.4. Expenditures for Certain civic, Political and Related Activities.) (a) Name and address of person or organization rendering services, (b) description of services received during year and project or case to which services relate, (c) basis of charges, (d) total charges for the year, detailing utility department and account charged.</p> <p>2. For any services which are of a continuing nature, give the date and term of contract and date of Commission authorization, if contract received Commission approval.</p> <p>3. Designate with an asterisk associated companies.</p>			
Line No.	Name / Address	Service	Basis of Charges	Acct #	Amount
1	Trees, Inc.	Right of Way Clearing	Contract	593.60	1,401,942
2	1700 Solutions Center				
3	Chicago, IL 60677				
4	Hydaker-Wheatlake Company	Distribution System Contractor	Contract	107.20	1,422,204
5	1435 Reliable Parkway				
6	Chicago, IL 60686				
7	Dykema Law Firm	Attorney/Legal	Hourly plus out of pocket expense	923.63	424,521
8	P.O. Box 79001				
9	Detroit, MI 48279				
10	GRP Engineering	Engineering Consultants	Hourly	107.20	166,643
11	660 Cascade W Parkway SE Ste 65			923.30	
12	Grand Rapids, MI 49512				
13	Harris Group	Accounting/Audit	Hourly plus out of pocket expense	923.60	56,390
14	731 S Garfield			923.61	
15	Traverse City, MI 49686				
16	Leroy Baatz	Power Supply Consultatio	Monthly Flat Fee	923.30	29,169
17	804 Wexford Court				
18	Columbia City, IN 46725				
19	Charles Palmer	Attorney/Legal	Hourly	923.63	30,795
20	545 Ashmun Street				
21	Sault Ste Marie, MI 49783				
22	Novak Engineering, LLC	Engineering Consultants	Hourly	107.20	249,977
23	901 Cunningham Road			923.30	
24	Jackson, MI 49201				
25	Collet & Associates	Financial Consultants	Hourly plus out of pocket expense	923.60	91,637
26	1100 Main Street, Suite 1610				
27	Kansas City, MO 64105				
28	Dunocher Marine Division	Hydro Canal Repairs	Contract	107.20	1,153,601
29	PO Box 711791				
30	Columbus, OH 43271				
31	Kent Power Inc	Contractor	Contract	107.20	850,270
32	90 Spring St				
33	Kent City, MI 49330				
34	Apogee Interactive Inc	Web Design	Contract	913.00	35,000
35	100 Crescent Center Parkway				
36	Tucker, GA 30084				
37	BFD Power Services Inc.	Contractor	Contract	107.20	364,150
38	3291 Pancheck Drive				
39	Indian River, MI 49749				
40	CC Power LLC	Contractor	Contract	107.20	164,710
41	3850 Beebe Road				
42	Kalkaska, MI 49646				
43	Global Mapping Solutions, LLC	GIS Mapping	Contract	107.00	86,782
44	PO Box 308				
45	Chapin, SC 29036				
46	J Ranck Electric	Contractor	Contract	107.20	107,127
47	511 Ashmun Street				
48	Sault Ste Marie, MI 49783				
49	Kevis Meter Testing	Meter Installation	Contract	593.90	73,363
50	PO Box 846				
51	Atlanta, MI 49709				
52	Matchinski Enterprises Inc	Contractor	Contract	107.20	201,410
53	10240 Chickagami Trail				
54	Brutus, MI 49716				
55	Mavrick Construction, Inc.	Contractor	Contract	107.20	186,826
56	1114 N State St				
57	St. Ignace, MI 49781				
58	Merit Construction Services	Contractor	Contract	107.20	111,229
59	5441-212 Street West				
60	Farmington, MN 55024				
61	Nomad Construction, Inc.	Contractor	Contract	107.20	556,449
62	4089 S Nicolet				
63	Sault Ste Marie, MI 49783				
64	Osmoste Utilities Services, Inc.	GIS Mapping	Contract	107.20	34,484
65	PO Box 8000				
66	Buffalo, NY 14267				
67	Proven Compliance Solutions	Reliability Consultant	Contract	923.90	62,214
68	200 South Executive Drive, Ste 101				
69	Brookfield, WI 53005				
70	SKF Electrical Contracting	Contractor	Contract	107.20	400,409
71	PO Box 57				
72	Williamsburg, MI 49690				
73	Solomon Corporation	Transformer Testing	Contract	107/108	88,788
74	PO Box 245				
75	Solomon, KS 67480				
76	Thunder Bay Tree Service, LLC	Right of Way Clearing	Contract	593.60	174,906
77	1172 Halley Rd				
78	Alpena, MI 49707				
79	Utility Systems Engineering	Engineering Consultants	Hourly plus out of pocket expense	923.30	99,131
80	1901 Ghiradelli Circle				
81	Centerville, OH 45459				
82	Vern Huyck Trucking	Contractor	Contract	107.20	246,985
83	19879 S M-129				
84	Pickford, MI 49774				
85	Ware General Contracting	Contractor	Contract	107.20	64,067
86	16925 S Scenic Dr				
87	Barbeau, MI 49710				
88	Wilcox Construction	Contractor	Contract	107.20	53,200
89	PO Box 282				
90	Cedarville, MI 49719				
91	Zellar Excavating Inc.	Contractor	Contract	107.20	25,200
92	2725 W Highway US 2				
93	Gulliver, MI 49840				

Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/13	Year of Report December 31, 2012
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SUMMARY OF COSTS BILLED TO ASSOCIATED COMPANIES

1. In column (a) report the name of the associated company.
2. In column (b) describe the affiliation (percentage ownership, etc.).
3. In column (c) describe the nature of the goods and services provided (administrative and general expenses, dividends declared, etc.).
4. In columns (d) and (e) report the amount classified to operating income and the account(s) in which reported.

Line No.	Company (a)	Affiliation (b)	Description: Nature of Goods and Services (c)	Account Number (d)	Amount Classified to Operating Income (e)
1	Lighthouse.Net	100% Owned Subsidiary	Shared data services,		
2			health care, mgt.		
3			services, misc. sales,		
4			employee benefits		
5					
6					
7					
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TOTAL					

Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/13	Year of Report 12/31/12
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SUMMARY OF COSTS BILLED TO ASSOCIATED COMPANIES (Continued)

5. In columns (f) and (g) report the amount classified to non-operating income and the account(s) in which reported.
6. In columns (h) and (i) report the amount classified to the balance sheet and the account(s) in which reported.
7. In column (j) report the total.
8. In column (k) indicate the pricing method (cost, per contract terms, etc.)

Account Number (f)	Amount Classified to Non-Operating Income (g)	Account Number (h)	Amount Classified to Balance Sheet (i)	Total (j)	Pricing Method (k)	Line No.
		143.5	79,843	79,843	Actual cost	1
						2
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Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/13	Year of Report 12/31/12
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SUMMARY OF COSTS BILLED FROM ASSOCIATED COMPANIES

1. In column (a) report the name of the associated company.
 2. In column (b) describe the affiliation (percentage ownership, etc.).
 3. In column (c) describe the nature of the goods and services provided (administrative and general expenses, dividends declared, etc.).
 4. In columns (d) and (e) report the amount classified to operating income and the account(s) in which reported.

Line No.	Company (a)	Affiliation (b)	Description: Nature of Goods and Services (c)	Account Number (d)	Amount Classified to Operating Income (e)
1	Lighthouse.Net	100% owned subsidiary	Internet Service, Pass	921.62	107,682
2			through billing,		
3			Misc. sales		
4					
5					
6					
7					
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30					
TOTAL					

Name of Respondent Cloverland Electric Cooperative	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/13	Year of Report 12/31/12
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SUMMARY OF COSTS BILLED TO ASSOCIATED COMPANIES (Continued)

5. In columns (f) and (g) report the amount classified to non-operating income and the account(s) in which reported.
6. In columns (h) and (i) report the amount classified to the balance sheet and the account(s) in which reported.
7. In column (j) report the total.
8. In column (k) indicate the pricing method (cost, per contract terms, etc.)

Account Number (f)	Amount Classified to Non-Operating Income (g)	Account Number (h)	Amount Classified to Balance Sheet (i)	Total (j)	Pricing Method (k)	Line No.
		232.01	3,322	3,322	Cost + 10%	1
						2
						3
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**MICHIGAN 43 CHIPPEWA
CLOVERLAND ELECTRIC COOPERATIVE, INC.
REPORT ON CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

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**CLOVERLAND ELECTRIC COOPERATIVE, INC.
BOARD OF DIRECTORS
DECEMBER 31, 2012**

Robert Schallip	Chairman
Dale Carlson	Vice Chairman
Richard Newland	Secretary/Treasurer
Charles Litzner	Director
Ronald Provo	Director
Peter Legault	Director
Gerald Nettleton	Director
Virgil Monroe	Director
Linda Hoath	Director

President and CEO

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, 2012 and 2011, and the related consolidated statements of revenue, equities, and cash flows for the years then ended. These financial statements are the responsibility of Cloverland Electric Cooperative, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cloverland Electric Cooperative, Inc. and subsidiary as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 2, 2013, on our consideration of Cloverland Electric Cooperative, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

May 2, 2013

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

ASSETS	2012	2011
ELECTRIC PLANT AND EQUIPMENT:		
In service – at cost	\$ 144,810,915	\$ 133,809,383
Construction work in progress	7,792,923	7,640,420
SUBTOTAL	152,603,838	141,449,803
Less accumulated depreciation	35,146,968	34,520,202
NET ELECTRIC PLANT	117,456,870	106,929,601
 OTHER ASSETS AND INVESTMENTS:		
Investments in associated organizations	10,302,643	9,912,510
Non-utility property	51,472	51,472
Temporarily restricted investments	237	237
Goodwill, net of amortization	243,301	243,301
TOTAL OTHER ASSETS AND INVESTMENTS	10,597,653	10,207,520
 CURRENT ASSETS:		
Cash and temporary cash investments	442,299	3,946,219
Accounts receivable, less allowance for doubtful accounts of \$435,000 and \$308,000 in 2012 and 2011, respectively	8,765,173	9,508,663
Refundable power costs	3,881,215	1,235,546
Materials and supplies	429,320	89,847
Prepaid expenses and other current assets	31,200	17,500
Prepaid federal income tax	31,200	17,500
TOTAL CURRENT ASSETS	13,549,207	18,481,556
DEFERRED DEBITS	11,023,384	11,038,311
TOTAL ASSETS	\$ 152,627,114	\$ 146,656,988

The accompanying notes are an integral part of these statements.

EQUITIES AND LIABILITIES	2012	2011
EQUITIES:		
Memberships	\$ 101,490	\$ 92,760
Patronage capital	22,519,007	21,898,312
Other equities	1,115,267	1,100,890
TOTAL EQUITIES	23,735,764	23,091,962
LONG-TERM DEBT, NET OF CURRENT MATURITIES:		
Mortgage note to CoBank		
Mortgage notes to Rural Utilities Service	26,280,171	26,663,815
Mortgage notes to Federal Financing Bank	69,052,194	67,762,000
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	5,864,207	6,680,239
Mortgage notes to Bank	820,256	663,899
Vehicle loan-Soo Co-op Credit Union		4,787
TOTAL LONG-TERM DEBT	102,016,828	101,774,740
OTHER NON-CURRENT LIABILITIES		
Accrued Postretirement benefits other than pensions and deferred compensation	1,307,790	1,360,021
Deferred income tax liability	54,500	41,085
TOTAL OTHER NON-CURRENT LIABILITIES	1,362,290	1,401,106
CURRENT LIABILITIES:		
Current maturities of long-term debt	2,986,755	1,688,796
Line of credit	11,250,000	6,750,000
Accounts payable:		
Purchased power	3,581,203	4,889,291
Other	2,842,706	2,810,806
Refundable power costs	345,952	
Customer deposits and prepayments	766,263	653,962
Accrued interest	745,364	532,701
Accrued vacation and sick pay	1,232,197	1,274,836
Accrued taxes and other current liabilities	1,761,555	1,788,551
TOTAL CURRENT LIABILITIES	25,511,995	20,388,943
DEFERRED CREDITS	237	237
TOTAL EQUITIES AND LIABILITIES	\$ 152,627,114	\$ 146,656,988

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	% Of Operating Revenue
OPERATING REVENUES	\$ 83,286,106	100.00
OPERATING EXPENSES:		
Cost of power – produced	3,607,156	4.33
Cost of power – purchased	44,072,682	52.92
Cost of goods sold	672,500	0.81
Transmission	6,966,782	8.36
Distribution – operations	3,176,971	3.81
Distribution – maintenance	4,979,750	5.98
Customer accounts	1,996,228	2.40
Customer service and information	1,374,844	1.65
Sales expense	167,903	0.20
Administrative and general	5,403,274	6.49
Depreciation	3,914,858	4.70
Taxes – property	2,422,583	2.91
Taxes – other	50,587	0.06
TOTAL OPERATING EXPENSES	78,806,118	94.62
OPERATING MARGINS BEFORE FIXED CHARGES	4,479,988	5.38
FIXED CHARGES:		
Interest on long-term debt	3,833,070	4.60
Other interest	323,969	0.39
TOTAL FIXED CHARGES	4,157,039	4.99
OPERATING MARGINS AFTER FIXED CHARGES	322,949	0.39
CAPITAL CREDITS	225,424	0.27
NET OPERATING MARGINS	548,373	0.66
NON-OPERATING MARGINS:		
Interest	97,120	0.11
Other	989,013	1.19
TOTAL NON-OPERATING MARGINS	1,086,133	1.30
NET MARGINS	\$ 1,634,506	1.96

The accompanying notes are an integral part of these statements.

2011	% Of Operating Revenue
\$ 86,798,057	100.00
3,164,252	3.65
48,033,879	55.34
632,474	0.73
6,070,419	6.99
3,226,660	3.72
4,959,060	5.71
3,957,156	4.56
683,239	0.79
171,193	0.20
5,668,173	6.53
3,847,797	4.43
2,512,074	2.89
196,372	0.23
<u>83,122,748</u>	<u>95.77</u>
<u>3,675,309</u>	<u>4.23</u>
2,247,125	2.59
907,701	1.04
<u>3,154,826</u>	<u>3.63</u>
520,483	0.60
685,118	0.79
<u>1,205,601</u>	<u>1.39</u>
52,169	0.06
886,371	1.02
<u>938,540</u>	<u>1.08</u>
<u>\$ 2,144,141</u>	<u>2.47</u>

**CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATED STATEMENT OF EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>Memberships</u>	<u>Patronage capital</u>	<u>Other equities</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, January 1, 2011	\$ 83,400	\$ 20,774,589	\$ 1,789,194	\$ (708,268)	\$ 21,938,915
Adjustment for SFAS No. 158					
Memberships issued	9,360				9,360
Other equity transactions			12,733		12,733
Retirement of capital credits		(1,013,187)			(1,013,187)
Current year margins		2,136,910	7,231		2,144,141
Balance, December 31, 2011	92,760	21,898,312	1,809,158	(708,268)	23,091,962
Adjustment for SFAS No. 158					
Memberships issued	8,730				8,730
Other equity transactions			15,796		15,796
Retirement of capital credits		(1,015,230)			(1,015,230)
Current year margins		1,635,925	(1,419)		1,634,506
Balance, December 31, 2012	<u>\$ 101,490</u>	<u>\$ 22,519,007</u>	<u>\$ 1,823,535</u>	<u>\$ (708,268)</u>	<u>\$ 23,735,764</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, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 83,973,657	\$ 89,262,715
Cash paid to suppliers and employees	(72,072,491)	(75,350,058)
Rent income	44,303	37,802
Interest received	97,120	52,223
Interest paid	(3,944,376)	(2,969,362)
Taxes paid	(2,509,347)	(2,969,190)
	<u>5,588,866</u>	<u>8,064,130</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of plant	(14,662,128)	(13,365,457)
Plant removal costs	(206,636)	(88,419)
(Increase) decrease in:		
Materials inventory	(165,550)	(699,370)
Investments in associated organizations	703,942	809,700
Purchase of acquisition goodwill		(117,711)
	<u>(14,330,372)</u>	<u>(13,461,257)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	2,929,050	4,317,733
Line of credit borrowings	4,500,000	6,000,000
Retirement of patronage capital credits	(838,487)	(855,882)
Donated capital	15,796	12,733
Loan advances		
Payments on debt	(1,591,085)	(1,509,579)
(Investment in)/use of cushion of credit	202,082	(243,758)
(Increase) decrease in deferred debits	11,500	(17,422)
Purchase of restricted investments		802,158
Memberships issued, net	8,730	9,360
	<u>5,237,586</u>	<u>8,515,343</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,503,920)	3,118,216
CASH AND TEMPORARY CASH INVESTMENTS, beginning	<u>3,946,219</u>	<u>828,003</u>
CASH AND TEMPORARY CASH INVESTMENTS, ending	<u>\$ 442,299</u>	<u>\$ 3,946,219</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, 2012 AND 2011
(Continued)

	2012	2011
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net margins	\$ 1,634,506	\$ 2,144,141
Adjustments to reconcile net margins to net cash provided by		
Operating activities:		
Depreciation and amortization	4,382,112	4,827,640
Capital credits	(225,424)	(685,118)
Patronage capital refunds applied to accounts written off	(176,743)	(157,304)
Loss (Gain) on the sale of fixed assets	(37,190)	(14,472)
Income from investment	(868,651)	(829,237)
(Increase) decrease in:		
Customer and other accounts receivable	750,821	2,229,753
Current & accrued assets - other	(353,173)	190,788
Inventory of subsidiary	(31,884)	(15,200)
Refundable power costs	1,581,498	(1,235,546)
Increase (decrease) in:		
Accounts payable	(1,283,519)	1,357,985
Refunds payable to members		(82,849)
Accrued interest payable		185,464
Current and accrued liabilities – other	268,744	154,736
Accrued postretirement benefits other than pensions	(52,231)	(6,651)
Total adjustments	3,954,360	5,919,989
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 5,588,866	\$ 8,064,130

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 15):

The accompanying notes are an integral part of these statements.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Organization

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

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 2012 combine the financial results of Cloverland Electric Cooperative, Inc and its wholly owned subsidiary, subsidiary Lighthouse.Net as required by APB Opinion No. 18, Cloverland Electric Cooperative, Inc. has accounted for the investment using the equity method. All significant inter-company transactions and accounts have been eliminated. In accordance with RUS guidelines, the activity of the subsidiary is not assignable to members of the Cooperative, the result is to include the net activities of the subsidiary in Other Equities

Electric Plant and Equipment

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

Revenue

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

Cloverland continually reviews its customer's creditworthiness and requests deposits and refunds based on that review. Cloverland's two largest customers accounted for approximately 16% of total revenues in 2012.

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 CONSOLIDATED 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.

Materials and Supplies

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

Advertising

The cost of advertising is expensed as incurred.

Retirement Plan

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

Contributions in Aid of Construction

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

NOTE 2: RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2012 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).

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: ELECTRIC PLANT AND DEPRECIATION RATES AND PROCEDURES

Major classes of electric plant as of December 31, 2012 and 2011 consisted of:

	<u>2012</u>	<u>2011</u>
Intangible plant	\$ 6,440,820	\$ 6,409,446
Distribution plant	107,526,127	99,293,403
Generation plant	12,639,866	12,273,063
Transmission plant	755,476	755,476
General plant and equipment	<u>17,448,626</u>	<u>15,077,995</u>
	144,810,915	133,809,383
Construction work in progress	<u>7,792,923</u>	<u>7,640,420</u>
TOTAL	<u><u>\$ 152,603,838</u></u>	<u><u>\$ 141,449,803</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, 2012 and 2011, 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, 2012 and 2011:

	<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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Charged to:		
Depreciation and amortization expense	\$ 3,914,858	\$ 3,847,797
Other expenses	<u>292,814</u>	<u>741,686</u>
 Total Expensed	 4,207,672	 4,589,483
Capitalized	<u>174,440</u>	<u>238,157</u>
 TOTAL DEPRECIATION	 <u>\$ 4,382,112</u>	 <u>\$ 4,827,640</u>

NOTE 5: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations as of December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
National Rural Utilities Cooperative Finance Corporation:		
Capital term and zero term certificates maturing through 2080 interest rates between 0% and 5%	\$ 801,796	\$ 811,585
Long-term certificates maturing through 2030 at an interest rate of 3%	48,000	48,000
Patronage capital credits	272,507	263,850
American Transmission Company, LLC	8,003,666	7,346,979
Federated Rural Electric Ins. Co.	246,723	213,537
CoBank	470,068	738,087
Deferred compensation funds		64,975
Other	<u>459,883</u>	<u>425,497</u>
 TOTAL	 <u>\$ 10,302,643</u>	 <u>\$ 9,912,510</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, 2012 and 2011 is \$8,003,666 and \$7,346,979, 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, 2012 and 2011 was \$243,301 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.

The current year increase was the result of purchasing the customer list of the Mackinac Island Cable Company for \$117,711.

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, 2012 and 2011:

	2012	2011	
Construction advances	\$ 237	\$ 237	
TOTAL FUNDS RESTRICTED	\$ 237	\$ 237	

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: CASH AND INVESTMENTS

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

	Per Institution
Insured	\$ 762,733
Uninsured	1,177,081
Total deposits at banks	1,939,814
In transit items	(1,537,133)
	402,681
Undeposited funds	19,117
Working funds	3,640
Money market funds and special construction	16,861
Total Cash	\$ 442,299

NOTE 9: PATRONAGE CAPITAL

Patronage capital balances as of December 31, 2012 and 2011 consisted of:

	2012	2011
Assignable	\$ 1,635,925	\$ 2,136,910
Assigned	36,062,283	33,925,373
	37,698,208	36,062,283
Less retirements to date	15,179,201	14,163,971
Balance	\$ 22,519,007	\$ 21,898,312

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. The Cooperative did not meet all of these requirements in the current year, and therefore had to request approval from RUS before retiring capital credits in 2012. Approval to retire capital credits was granted by RUS pursuant to the Cooperative's request. 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. The Cooperative was not in compliance with this requirement in 2012, and CFC and CoBank agreed to RUS' approval of the capital credit retirement.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: PATRONAGE CAPITAL – continued

The equities and margins of Cloverland represent 15.55% and 15.74% of the total assets at December 31, 2012 and 2011, respectively. The borrower is current on all payments due and is not in default under its loan documents.

Capital credit retirements representing patronage capital from 1989 and 2010 and retirements to deceased patrons, in the amounts of \$1,015,230 and \$1,013,187 were paid in the years ended December 31, 2012 and 2011, respectively.

NOTE 10: OTHER EQUITIES

Other equities consisted of the following for the years ending December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</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	476,950	461,158
Non-assignable margins	<u>450,534</u>	<u>451,949</u>
TOTAL	<u>\$ 1,823,538</u>	<u>\$ 1,809,158</u>

NOTE 11: MORTGAGE NOTES

Long-term debt is composed of 1.274% to 8.10% mortgage notes payable to the Federal Financing Bank, the Rural Utilities Service (RUS) of the United States of America and the National Rural Utilities Cooperative Finance Corporation (CFC). The CoBank note was scheduled to mature in September 2013, but was refinanced during the year by the issuance of mortgage notes to Federal Financing Bank. 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 May 2013 through January 2046.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: MORTGAGE NOTES - continued

Detail of the long-term debt is as follows:

	<u>2012</u>	<u>2011</u>
Federal Financing Bank notes bearing interest at 2.52% to 2.87% per annum, payable in monthly and quarterly installments through 2046.	\$ 70,394,813	\$ 67,762,000
Rural Utilities Service notes bearing interest at 3.75% to 5.23% per annum, payable in monthly and quarterly installments to 2042.	27,197,306	27,838,510
National Rural Utilities Cooperation Finance Corporation notes bearing interest at 5.40% to 8.1% per annum, payable in quarterly installments to the year 2032.	3,123,330	3,712,788
Notes payable to Freddie Mac in quarterly installments of \$137,814, including interest at 1.274%, with final maturity ranging from 2013 to 2034. Secured by substantially all assets.	3,567,412	3,798,951
Note payable-Bank. Monthly installment payments of \$6,995, including interest at 7.0%, until May 5, 2021, Secured by cable television equipment.	183,497	197,116
Note payable-Bank. Monthly installment payments of \$7,577, including interest at 7.0%, until May 5, 2021, secured by cable television equipment.	552,299	528,986
Note payable-Bank. Monthly installment payments of \$3,667, including interest at 7.0%, until November 1, 2027. Secured by cable television equipment.	164,611	
***there is \$236,916 in unadvanced loan funds available to be drawn on this loan until November 1, 2027.		
Vehicle loan-Bank. Monthly installment payments of \$627, including interest at 5.0%, until August 1, 2013. Secured by the vehicle purchased.	<u>4,927</u>	<u>11,880</u>
	105,188,195	103,850,231
Less:		
RUS Cushion of credit	184,613	386,695
Current maturities	<u>2,986,755</u>	<u>1,688,796</u>
TOTAL LONG-TERM DEBT	<u><u>\$ 102,016,827</u></u>	<u><u>\$ 101,774,740</u></u>

Unadvanced loan funds were available to Cloverland on the loan commitments from RUS/FFB in the amount of \$31,543,000 for 2012 and \$34,238,000 for 2011. Unadvanced loan funds were available to Cloverland on the loan commitments from CFC in the amount of \$-0- for 2012 and 2011, respectively.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: MORTGAGE NOTES - continued

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

		Total
2013	\$	2,986,755
2014		3,099,406
2015		3,008,672
2016		2,714,033
2017		2,806,614

The loan agreement requires certain financial ratios to be met in the operation and management of its business. The company did meet these ratios for 2012.

NOTE 12: LINE OF CREDIT

The Cooperative has available a perpetual line of credit with CFC in the amount of \$4,000,000 for 2012 and 2011, respectively. The Cooperative had an outstanding balance of \$-0- for 2012 and 2011. Interest at December 31, 2012 was charged at 3.2%

The Cooperative has available a line of credit with CoBank in the amount of \$15,000,000 for 2012. The Cooperative had an outstanding balance of \$11,250,000 for 2012 and \$6,750,000 in 2011. Interest at December 31, 2012 was charged at 3.21%.

Maximum short term loan allowed by CFC and CoBank agreement is \$15,000,000 in any combination of either or both sources.

NOTE 13: DEFERRED DEBITS AND CREDITS

The balance of deferred credits at December 31, 2012 consists of a land contract receivable from the sale of vacant property to a governmental unit and a deferred regulatory asset relating to pension obligations assumed pursuant to the acquisition of Edison Sault Electric. The land contract is to be paid to the Cooperative over ten years. The balance was \$11,500 and \$23,000 at December 31, 2012 and December 31, 2011, respectively. The balance of the regulatory pension asset was \$10,997,889 at December 31, 2012 and December 31, 2011. The Cooperative has concluded that substantially all of the unrecognized costs resulting from the recognition of the funded status of the pension and OPEB plans qualify as a regulatory asset.

The balance of deferred credits at December 31, 2012 and 2011 consists of consumers deposits for memberships, connection fees and aid to construction. The balances for these amounts were \$237 for both 2012 and 2011.

NOTE 14: PARTICIPATION IN THE RETIREMENT SECURITY PLAN

Narrative Description - The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: PARTICIPATION IN THE RETIREMENT SECURITY PLAN - continued

Plan Information – Cloverland’s contributions to the RS Plan in 2012 and in 2011 represented less than 5 percent of the total contributions made to the plan by all participating employers. Cloverland made contributions to the plan of \$1,026,388 in 2012 and \$1,043,916 in 2011. Contributions to the savings program, which are based on a percentage of the employee’s compensation, were \$503,098 and \$472,503 in 2012 and 2011, respectively. There have been no significant changes that affect the comparability of 2012 and 2011 contributions.

In the RS Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was between 65 percent and 80 percent funded at January 1, 2012 and January 1, 2011 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

NOTE 15: NON-CASH INVESTING AND FINANCING ACTIVITIES

Non-cash investing activities for 2012 and 2011 were as follows:

	2012	2011
Patronage capital allocated	\$ 222,385	\$ 659,729
Materials salvaged from inventory	824	4,830
Capital credits applied to bad debt	176,743	157,305
Capitalized depreciation	174,440	238,157

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:

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - continued

Components of Benefit Cost	2012	2011
Service Cost	\$ 1,021	\$ 1,021
Interest Cost	58,738	58,738
Amortization of transition obligation	24,219	24,219
Recognition of net Gain/loss	10,936	10,936
Prior Service cost	74,055	74,055
Net periodic post-retirement benefit cost	\$ 168,969	\$ 168,969

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

Change in Benefit Obligation	2012	2011
Benefit obligation at beginning of year	\$ 1,304,447	\$ 1,262,932
Interest cost	58,738	58,738
Unrecognized prior service cost	110,231	110,231
Net actuarial loss/(gain) for the prior year	(156,224)	(127,454)
Benefits paid	(156,224)	(127,454)
Benefit obligation at end of year	\$ 1,317,192	\$ 1,304,447
	2012	2011
Change in Plan Assets		
Fair value of plan assets at beginning of year		
Employer contributions	\$ 156,224	\$ 127,454
Benefits paid	(156,224)	(127,454)
Fair value of plan assets at end of year	\$ -	\$ -
Recognized Benefit Obligation	\$ (1,317,192)	\$ (1,304,447)
Amounts Recognized in Accumulated Other Comprehensive Loss - Beginning	\$ 708,268	\$ 708,268
Amounts Recognized in Accumulated Other Comprehensive Loss	\$ 708,268	\$ 708,268

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - continued

For measurement purposes a 9.0% and 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012 and 2011, respectively. The rate was assumed to decrease gradually by 0.5% per year to an ultimate rate of 5.0% per annum

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

Benefits are expected to be paid out as follows:

2013	112,087
2014	120,018
2015	114,377
2016	345,728
2017	350,000

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, 2012.

NOTE 17: LEASES AND POWER PURCHASE AGREEMENTS

The Cooperative's primary source of generation is its 30-megawatt hydroelectric-generating plant located on the St. Marys River in Sault Ste. Marie, Michigan. The water for this facility is leased under a contract between Edison Sault Electric Company, LLC and the United States Corps of Engineers with tenure to December 31, 2075. However, the Secretary of the Army has the right to terminate the contract subsequent to December 2050 by providing at least a five-year termination notice. No such notice can be given prior to December 31, 2045. The Cooperative pays for all water taken from the St. Marys River at predetermined rates with a minimum annual payment of \$200,000. Rentals under this contract were \$785,172 in 2012. The total flow of water taken out of Lake Superior, which in effect is the flow of water in the St. Marys River, is under the direction and control of the International Joint Commission, created by the Boundary Water Treaty of 1909 between the United States and Great Britain, now represented by Canada.

The International Joint Commission places limitations on the flow of water from Lake Superior that limits Cloverland's amount of hydroelectric generation. Water elevation levels on Lake Superior have been below normal levels since 1998, resulting in decreased water release. During any limited flow months, it is necessary for the Cooperative to purchase additional power from other sources or increase the use of the Cooperative's diesel generation. Water elevation levels on Lake Superior in 2006 and 2007 approached or exceeded all-time record seasonal lows, resulting in less water available for hydroelectric operation. Water elevation levels on Lake Superior improved in the fall of 2007, but are still well below normal elevation levels. In 2012, the water elevations improved over 2007 levels, but continue to be below normal.

Hydroelectric generation is also purchased by Edison Sault Electric Company, LLC under contract from the United States Corps of Engineers' hydroelectric-generating plant located within the Soo Locks complex on the St. Marys River in Sault Ste. Marie, Michigan. This 17-megawatt contract has tenure to November 1, 2040, and cannot be terminated by the United States Government prior to November 1, 2030. Payments under the contract were \$1,837,683 and \$1,832,362 in 2012 and 2011, respectively, with modifications to such payments for power outages and the cost of designated repairs in excess of the federal share of such costs. Annual payments are subject to re-negotiation every five years, and the re-negotiation increasing the payment to \$1,850,948 was approved in January 2009.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18: COMMITMENTS AND CONTINGENCIES

St. Ignace division Remediation Project - A decommissioned diesel-generating site located at the St. Ignace Division's service center is currently being remediated for diesel fuel. The Michigan Department of Natural Resources and Environment (DNRE) is working with the Cooperative at the site. The cost of monitoring and remediation was \$33,611 and \$45,076, for the years ended December 31, 2012 and 2011, respectively. At this time, we cannot reasonably estimate future monitoring and remediation expenses.

NOTE 19: DEFERRED COMPENSATION

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

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

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

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

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

NOTE 20: LETTERS OF CREDIT

The Cooperative has a letter of credit outstanding to the Midwest Independent Transmission System Operator (MISO) for \$1,500,000 at December 31, 2012. This letter of credit is required in order to mitigate risk of loss in financial operations.

Also, the Cooperative has a letter of credit outstanding to the Michigan Department of Environmental Quality for \$30,000 at December 31, 2012. This letter of credit is required in order for wetlands mitigation.

NOTE 21: INCOME TAXES

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

	<u>2012</u>	<u>2011</u>
Deferred tax asset arising from:		
Timing difference	\$ 6,490	\$ 6,588
Deferred tax liability arising from:		
Accumulated depreciation for tax purposes in excess of book	(60,990)	(47,673)
Net deferred tax asset (liability)	<u>\$ (54,500)</u>	<u>\$ (41,085)</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21: INCOME TAXES - continued

The detail of income tax expense is as follows:

	<u>2012</u>	<u>2011</u>
Current operations	\$ 13,700	\$ 3,000
Deferred taxes	<u>(13,415)</u>	<u>(5,136)</u>
Total income tax benefit (expense)	<u>\$ 285</u>	<u>\$ (2,136)</u>

Management believes that positions taken during prior years and to be taken for 2012 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 22: SUBSEQUENT EVENTS

Lighthouse.Net management has evaluated the impact of subsequent events as they relate to the financial statements through May 2, 2013, the date of issuance of the financial statements.

Cloverland Electric Cooperative, Inc. and subsidiary management has evaluated the impact of subsequent events as they relate to the financial statements through May 2, 2013, the date of issuance of the financial statements.

ADDITIONAL INFORMATION

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2012

	Cloverland Electric Cooperative	Lighthouse.net	Eliminations	Consolidated Total
ASSETS				
ELECTRIC PLANT:				
In service – at cost	\$ 142,907,746	\$ 1,903,169	\$	\$ 144,810,915
Construction work in progress	7,703,543	89,380		7,792,923
	150,611,289	1,992,549		152,603,838
Less accumulated depreciation	34,345,348	801,620		35,146,968
NET ELECTRIC PLANT	116,265,941	1,190,929		117,456,870
OTHER ASSETS AND INVESTMENTS:				
Investments in associated organizations	10,182,286	120,357		10,302,643
Investment in subsidiary	675,531		(675,531)	
Receivables from subsidiary	2,146		(2,146)	
Non-utility property	51,472			51,472
Temporarily restricted investments	237			237
Goodwill		243,301		243,301
TOTAL OTHER ASSETS AND INVESTMENTS	10,911,672	363,658	(677,677)	10,597,653
CURRENT ASSETS:				
Cash and temporary cash investments	293,793	148,506		442,299
Accounts receivable, less allowance for doubtful accounts of approximately \$435,000	8,712,870	52,303		8,765,173
Materials and supplies	3,812,020	69,195		3,881,215
Prepaid expenses and other current assets	421,601	7,719		429,320
Prepaid Federal income tax		31,200		31,200
TOTAL CURRENT ASSETS	13,240,284	308,923		13,549,207
DEFERRED DEBITS	11,009,389	13,995		11,023,384
TOTAL ASSETS	\$ 151,427,286	\$ 1,877,505	\$ (677,677)	\$ 152,627,114

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2012
(continued)

	Cloverland Electric Cooperative	Lighthouse.net	Eliminations	Consolidated Total
EQUITIES:				
Memberships	\$ 101,490	\$	\$	\$ 101,490
Patronage capital	22,519,007			22,519,007
Other equities	1,115,267	675,531	(675,531)	1,115,267
TOTAL EQUITIES	23,735,764	675,531	(675,531)	23,735,764
LONG-TERM DEBT, NET OF CURRENT MATURITIES:				
Mortgage notes to Rural Utilities Service	26,280,171			26,280,171
Mortgage notes to Federal Financing Bank	69,052,194			69,052,194
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	5,864,207			5,864,207
Mortgage notes to Central Savings Bank		820,256		820,256
TOTAL LONG-TERM DEBT	101,196,572	820,256		102,016,828
OTHER NON-CURRENT LIABILITIES				
Accrued Postretirement benefits other than pensions and deferred compensation	1,307,790			1,307,790
Deferred income tax liability		54,500		54,500
TOTAL OTHER NON-CURRENT LIABILITIES	1,307,790	54,500		1,362,290
CURRENT LIABILITIES:				
Current maturities of long-term debt	2,901,677	85,078		2,986,755
Line of credit	11,250,000			11,250,000
Accounts payable:				
Purchased power	3,581,203			3,581,203
Other	2,806,677	36,029		2,842,706
Intercompany		2,146	(2,146)	
Refundable power costs	345,952			345,952
Customer deposits and prepayments	601,200	165,063		766,263
Accrued interest	745,364			745,364
Accrued vacation and sick pay	1,232,197			1,232,197
Accrued taxes and other current liabilities	1,722,653	38,902		1,761,555
TOTAL CURRENT LIABILITIES	25,186,923	327,218	(2,146)	25,511,995
DEFERRED CREDITS	237			237
TOTAL EQUITIES AND LIABILITIES	\$ 151,427,286	\$ 1,877,505	\$ (677,677)	\$ 152,627,114

CLOVERLAND ELECTRIC COOPERATIVE, INC.
CONSOLIDATING STATEMENT OF REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012

	Cloverland Electric Cooperative	Lighthouse.net	Eliminations	Consolidated Total
OPERATING REVENUES	\$ 81,828,355	\$ 1,457,751	\$	\$ 83,286,106
OPERATING EXPENSES:				
Cost of power-produced	3,607,156			3,607,156
Cost of power—purchased	44,072,682			44,072,682
Cost of goods sold		672,500		672,500
Transmission	6,966,782			6,966,782
Distribution – operations	3,176,971			3,176,971
Distribution – maintenance	4,979,750			4,979,750
Customer accounts	1,996,228			1,996,228
Customer service and information expense	1,374,844			1,374,844
Sales expense	167,903			167,903
Administrative and general	4,771,957	632,967	(1,650)	5,403,274
Depreciation and amortization	3,809,856	105,002		3,914,858
Taxes – property	2,405,055	17,528		2,422,583
Taxes – other	22,917	27,670		50,587
TOTAL OPERATING EXPENSES	77,352,101	1,455,667	(1,650)	78,806,118
OPERATING MARGINS BEFORE FIXED CHARGES	4,476,254	2,084	1,650	4,479,988
FIXED CHARGES:				
Interest on long-term debt	3,780,501	52,569		3,833,070
Other interest	323,969			323,969
TOTAL FIXED CHARGES	4,104,470	52,569		4,157,039
OPERATING MARGINS AFTER FIXED CHARGES	371,784	(50,485)	1,650	322,949
CAPITAL CREDITS	222,385	3,039		225,424
NET OPERATING MARGINS	594,169	(47,446)	1,650	548,373
NON-OPERATING MARGINS:				
Interest Income	95,396	1,724		97,120
Other	946,360	44,303	(1,650)	989,013
Income from subsidiary	(1,419)		1,419	
TOTAL NON-OPERATING MARGINS	1,040,337	46,027	(231)	1,086,133
NET MARGINS	\$ 1,634,506	\$ (1,419)	\$ 1,419	\$ 1,634,506



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

May 2, 2013

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

We have audited the financial statements of Cloverland Electric Cooperative, Inc. for the year ended December 31, 2012, and have issued our report thereon dated May 2, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cloverland Electric Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cloverland Electric Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cloverland Electric Cooperative's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

FINDING 2012-01

Material Weakness in Internal Control Over Financial Reporting -Material Audit Adjustments

Criteria: Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition: During our audit, we identified and proposed two material adjustments (which were approved and posted by management) to adjust the Cooperative's general ledger to the appropriate balances. These adjustments included entries to adjust PSCR and Energy Optimization expenses to agree balance sheet accounts to supporting detail, and to correct other entries for conformity with GAAP.

Cause: This condition was the result of staff error and staff communication issues.

Effect: As result of this condition, The Cooperative's accounting records were initially misstated by amounts material to the financial statements.

Recommendation:

We recommend that Cooperative staff complete a detailed monthly review of the internally generated financial statements compared to source data information.

View of Responsible Officials:

Management has determined that an increase in the scope of the monthly financial statement review will insure financial statements are properly stated.

Compliance and other matters

As part of obtaining reasonable assurance about whether Cloverland Electric Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Certified Public Accountants

**MICHIGAN 43 CHIPPEWA
CLOVERLAND ELECTRIC COOPERATIVE, INC.
REPORT ON FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

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**CLOVERLAND ELECTRIC COOPERATIVE, INC.
BOARD OF DIRECTORS
DECEMBER 31, 2012**

Robert Schallip	Chairman
Dale Carlson	Vice Chairman
Richard Newland	Secretary/Treasurer
Charles Litzner	Director
Ronald Provo	Director
Peter Legault	Director
Gerald Nettleton	Director
Virgil Monroe	Director
Linda Hoath	Director

President and CEO

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, 2012 and 2011, 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 \$1,199,828 and \$929,029 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 2, 2013, on our consideration of Cloverland Electric Cooperative, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

May 2, 2013

CLOVERLAND ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
ELECTRIC PLANT:		
In service – at cost	\$ 142,907,746	\$ 132,218,902
Construction work in progress	7,703,543	7,503,757
SUBTOTAL	150,611,289	139,722,659
Less accumulated depreciation	34,345,348	33,810,675
NET ELECTRIC PLANT	116,265,941	105,911,984
 OTHER ASSETS AND INVESTMENTS:		
Investments in associated organizations	10,182,286	9,789,471
Investment in subsidiary	675,531	676,950
Accounts receivable from subsidiary	2,146	9,477
Non-utility property	51,472	51,472
Temporarily restricted investments	237	237
TOTAL OTHER ASSETS AND INVESTMENTS	10,911,672	10,527,607
 CURRENT ASSETS:		
Cash and temporary cash investments	293,793	3,822,792
Accounts receivable, less allowance for doubtful accounts of \$434,000 and \$302,000 in 2012 and 2011, respectively	8,712,870	9,477,659
Refundable power costs	-	1,235,546
Materials and supplies	3,812,020	3,646,470
Prepaid expenses and other current assets	421,601	85,012
TOTAL CURRENT ASSETS	13,240,284	18,267,479
DEFERRED DEBITS	11,009,389	11,020,889
TOTAL ASSETS	\$ 151,427,286	\$ 145,727,959

The accompanying notes are an integral part of these statements.

	<u>2012</u>	<u>2011</u>
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	\$ 101,490	\$ 92,760
Patronage capital	22,519,007	21,898,312
Other equities	<u>1,115,267</u>	<u>1,100,890</u>
TOTAL EQUITIES	<u>23,735,764</u>	<u>23,091,962</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES:		
Mortgage notes to Rural Utilities Service	26,280,171	26,663,815
Mortgage notes to Federal Financing Bank	69,052,194	67,762,000
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	<u>5,864,207</u>	<u>6,680,239</u>
TOTAL LONG-TERM DEBT	<u>101,196,572</u>	<u>101,106,054</u>
OTHER NON-CURRENT LIABILITIES		
Accrued Postretirement benefits other than pensions and deferred Compensation	<u>1,307,790</u>	<u>1,360,021</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	2,901,677	1,619,500
Line of credit	11,250,000	6,750,000
Accounts payable:		
Purchased power	3,581,203	4,889,291
Other	2,806,677	2,799,692
Refundable power costs	345,952	-
Customer deposits and prepayments	601,200	554,781
Accrued interest	745,364	532,701
Accrued vacation and sick pay	1,232,197	1,274,836
Accrued taxes and other current liabilities	<u>1,722,653</u>	<u>1,748,884</u>
TOTAL CURRENT LIABILITIES	<u>25,186,923</u>	<u>20,169,685</u>
DEFERRED CREDITS	<u>237</u>	<u>237</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 151,427,286</u>	<u>\$ 145,727,959</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
STATEMENTS OF REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	% Of Operating Revenue
OPERATING REVENUES	\$ 81,828,355	100.00
OPERATING EXPENSES:		
Cost of power – produced	3,607,156	4.41
Cost of power – purchased	44,072,682	53.86
Transmission	6,966,782	8.51
Distribution – operations	3,176,971	3.88
Distribution – maintenance	4,979,750	6.09
Customer accounts	1,996,228	2.44
Customer service and information	1,374,844	1.68
Sales expense	167,903	0.21
Administrative and general	4,771,957	5.83
Depreciation	3,809,856	4.66
Taxes – property	2,405,055	2.94
Taxes – other	22,917	0.03
TOTAL OPERATING EXPENSES	77,352,101	94.53
OPERATING MARGINS BEFORE FIXED CHARGES	4,476,254	5.47
FIXED CHARGES:		
Interest on long-term debt	3,780,501	4.62
Other interest	323,969	0.40
TOTAL FIXED CHARGES	4,104,470	5.02
OPERATING MARGINS AFTER FIXED CHARGES	371,784	0.45
CAPITAL CREDITS	222,385	0.27
NET OPERATING MARGINS	594,169	0.73
NON-OPERATING MARGINS:		
Interest	95,396	0.12
Other	946,360	1.16
Income (loss) from subsidiary	(1,419)	0.00
TOTAL NON-OPERATING MARGINS	1,040,337	1.27
NET MARGINS	\$ 1,634,506	2.00

The accompanying notes are an integral part of these statements.

2011	% Of Operating Revenue
\$ 85,476,845	100.00
3,164,252	3.70
48,033,879	56.20
6,070,419	7.10
3,226,660	3.77
4,959,060	5.80
3,920,322	4.59
683,239	0.80
171,193	0.20
5,152,139	6.03
3,744,705	4.38
2,491,292	2.91
166,921	0.20
<u>81,784,081</u>	<u>95.68</u>
<u>3,692,764</u>	<u>4.32</u>
2,208,587	2.59
907,701	1.06
<u>3,116,288</u>	<u>3.65</u>
576,476	0.67
<u>659,729</u>	<u>0.77</u>
<u>1,236,205</u>	<u>1.44</u>
49,703	0.06
851,002	1.00
7,231	0.01
<u>907,936</u>	<u>1.07</u>
<u>\$ 2,144,141</u>	<u>2.51</u>

CLOVERLAND ELECTRIC COOPERATIVE, INC.
STATEMENT OF EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>Memberships</u>	<u>Patronage capital</u>	<u>Other equities</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, January 1, 2011	\$ 83,400	\$ 20,774,589	\$ 1,789,194	\$ (708,268)	\$ 21,938,915
Adjustment for SFAS No. 158					
Memberships issued	9,360				9,360
Other equity transactions			12,733		12,733
Retirement of capital credits		(1,013,187)			(1,013,187)
Current year margins		2,136,910	7,231		2,144,141
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2011	92,760	21,898,312	1,809,158	(708,268)	23,091,962
Adjustment for SFAS No. 158					
Memberships issued	8,730				8,730
Other equity transactions			15,796		15,796
Retirement of capital credits		(1,015,230)			(1,015,230)
Current year margins		1,635,925	(1,419)		1,634,506
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2012	<u>\$ 101,490</u>	<u>\$ 22,519,007</u>	<u>\$ 1,823,535</u>	<u>\$ (708,268)</u>	<u>\$ 23,735,764</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, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 82,465,642	\$ 87,898,554
Cash paid to suppliers and employees	(70,724,270)	(74,116,156)
Interest received	95,396	49,757
Interest paid	(3,891,807)	(2,930,824)
Taxes paid	(2,490,319)	(2,946,908)
	<u>5,454,642</u>	<u>7,954,423</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of plant	(14,387,242)	(12,880,940)
Plant removal costs	(206,636)	(88,419)
(Increase) decrease in:		
Materials inventory	(165,550)	(699,370)
Investments in associated organizations	698,221	802,083
Receivables from wholly-owned subsidiary	7,331	(7,120)
	<u>(14,053,876)</u>	<u>(12,873,766)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	2,695,000	67,762,000
Line of credit borrowings	4,500,000	6,000,000
Retirement of patronage capital credits	(838,487)	(855,882)
Donated capital	15,796	12,733
Payments on debt	(1,524,386)	(65,465,939)
Use of cushion of credit	202,082	(243,758)
Decrease in deferred debits	11,500	
Purchase of restricted investments		802,158
Memberships issued, net	8,730	9,360
	<u>5,070,235</u>	<u>8,020,672</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,528,999)	3,101,329
CASH AND TEMPORARY CASH INVESTMENTS, beginning	<u>3,822,792</u>	<u>721,463</u>
CASH AND TEMPORARY CASH INVESTMENTS, ending	<u>\$ 293,793</u>	<u>\$ 3,822,792</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, 2012 AND 2011
(Continued)

	2012	2011
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net margins	\$ 1,634,506	\$ 2,144,141
Adjustments to reconcile net margins to net cash provided by Operating activities:		
Depreciation and amortization	4,277,110	4,724,548
Capital credits	(222,385)	(659,729)
Patronage capital refunds applied to billings and bad debts	(176,743)	(157,304)
Loss (Gain) on the sale of fixed assets	(37,190)	(14,472)
Income on investment in wholly-owned subsidiary	1,419	(7,231)
Earnings on investment in associated organization	(868,651)	(829,237)
(Increase) decrease in:		
Customer and other accounts receivable	764,789	2,199,515
Current & accrued assets - other	(336,589)	192,770
Refundable power costs	1,581,498	(1,235,546)
Increase (decrease) in:		
Accounts payable, net of capital items	(1,301,103)	1,371,225
Refunds payable to members		(82,849)
Accrued interest payable	212,663	185,464
Current and accrued liabilities – other	(22,451)	129,779
Accrued postretirement benefits other than pensions	(52,231)	(6,651)
Total adjustments	3,820,136	5,810,282
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 5,454,642	\$ 7,954,423

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 14):

The accompanying notes are an integral part of these statements.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Organization

Cloverland Electric Cooperative, Inc. (Cloverland) is a non-profit organization that engages in the generation, purchase and sale electricity in the Eastern Upper Peninsula of Michigan. Cloverland is generally exempt from income tax under Section 501(c)(12) of the United States Internal Revenue Code. For 2012, Midwest is subject to the Michigan Corporate Income tax and in 2011 Midwest was 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.

Principles of Consolidation

The consolidated financial statements for 2012 combine the financial results of Cloverland Electric Cooperative, Inc and its wholly owned subsidiary, Edison Sault Electric Company, LLC. As required by APB Opinion No. 18 and SFAS No. 94, Cloverland has accounted for the investment using the Equity Method. All significant inter-company transactions and accounts have been eliminated. Edison Sault Electric Company, LLC was dissolved on October 16, 2012.

Electric Plant

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

Revenue

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

Cloverland continually reviews its customer's creditworthiness and requests deposits and refunds based on that review. Cloverland's two largest customers accounted for approximately 16% of total revenues in 2012.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Concentration of Credit Risk

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

Investments

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

Cash and Cash Equivalents

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

Accounts receivable

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

Materials and Supplies

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

Advertising

The cost of advertising is expensed as incurred.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Retirement Plan

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

Contributions in Aid of Construction

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

NOTE 2: RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2012 presentation.

NOTE 3: ELECTRIC PLANT AND DEPRECIATION RATES AND PROCEDURES

Major classes of electric plant as of December 31, 2012 and 2011 consisted of:

	<u>2012</u>	<u>2011</u>
Intangible plant	\$ 6,440,820	\$ 6,409,446
Distribution plant	107,526,127	99,293,403
Generation plant	12,639,866	12,273,063
Transmission plant	755,476	755,476
General plant	<u>15,545,457</u>	<u>13,487,514</u>
	142,907,746	132,218,902
Construction work in progress	<u>7,703,543</u>	<u>7,503,757</u>
TOTAL	<u><u>\$ 150,611,289</u></u>	<u><u>\$ 139,722,659</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, 2012 and 2011, respectively.

During the year ended December 31, 2011, the Cooperative maintained the vintage depreciation method on the assets purchased from Edison Sault Electric Company, LLC. In 2011, these assets began being depreciated by the composite rate method used by the Cooperative, causing a decrease in the overall depreciation expense compared to 2010. The vintage depreciation method utilizes a shorter depreciable asset life relative to the composite method, and thus yields higher depreciation expense on an annual basis.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3: ELECTRIC PLANT AND DEPRECIATION RATES AND PROCEDURES

General and generation plant depreciation rates have been applied on a straight-line basis and were as follows for the years ended December 31, 2012 and 2011:

	<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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Charged to:		
Depreciation and amortization expense	\$ 3,809,856	\$ 3,744,705
Other expenses	<u>292,814</u>	<u>741,686</u>
Total Expensed	4,102,670	4,486,391
Capitalized	<u>174,440</u>	<u>238,157</u>
TOTAL DEPRECIATION	<u><u>\$ 4,277,110</u></u>	<u><u>\$ 4,724,548</u></u>

NOTE 4: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations as of December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
National Rural Utilities Cooperative Finance Corporation:		
Capital term and zero term certificates maturing through 2080, interest rates between 0% and 5%	\$ 801,796	\$ 811,585
Long-term certificates maturing through 2030 at an interest rate of 3%	48,000	48,000
Patronage capital credits	272,507	263,850
American Transmission Company, LLC	8,003,666	7,346,979
Federated Rural Electric Ins. Co.	246,723	213,537
CoBank	470,068	738,087
Deferred compensation funds	-	64,975
Other	<u>339,526</u>	<u>302,458</u>
TOTAL	<u><u>\$ 10,182,286</u></u>	<u><u>\$ 9,789,471</u></u>

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

NOTE 4: INVESTMENTS IN ASSOCIATED ORGANIZATIONS - continued

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 31,2011	451,950
Book value as of December 31, 2011	676,950
Undistributed loss during 2012	(1,419)
Book value as of December 31, 2012	\$ 675,531

Lighthouse.Net sells computer equipment and provides internet service and cable television. 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, 2012 and 2011 is \$8,003,666 and \$7,346,979, 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Construction advances	\$ 237	\$ 237
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	\$ 579,589
Uninsured	1,177,081
Total deposits at banks	1,756,670
In transit items	(1,483,178)
	273,492
Working funds	3,440
Money market funds and other special funds	16,861
Total Cash	\$ 293,793

NOTE 7: PATRONAGE CAPITAL

Patronage capital balances as of December 31, 2012 and 2011 consisted of:

	2012	2011
Assignable	\$ 1,635,925	\$ 2,136,910
Assigned	36,062,283	33,925,373
	37,698,208	36,062,283
Less retirements to date	15,179,201	14,163,971
Balance	\$ 22,519,007	\$ 21,898,312

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. The Cooperative did not meet all of these requirements in the current year, and therefore had to request approval from RUS before retiring capital credits in 2012. Approval to retire capital credits was granted by RUS pursuant to the Cooperative's request. 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. The Cooperative was not in compliance with this requirement in 2011, and CFC and CoBank agreed to RUS' approval of the capital credit retirement.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 7: PATRONAGE CAPITAL - continued

The equities and margins of Cloverland represent 15.67% and 15.85% of the total assets at December 31, 2012 and 2011, respectively. The borrower is current on all payments due and is not in default under its loan documents.

Capital credit retirements representing patronage capital primarily from 1989 and 2010 and retirements to deceased patrons, in the amounts of \$1,015,230 and \$1,013,187 were paid in the years ended December 31, 2012 and 2011, respectively.

NOTE 8: OTHER EQUITIES

Other equities consisted of the following for the years ending December 31, 2012 and 2011:

	2012	2011
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	476,950	461,158
Non-assignable margins	450,534	451,949
TOTAL	\$ 1,823,538	\$ 1,809,158

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, Federal Financing Bank and the National Rural Utilities Cooperative Finance Corporation (CFC).

NOTE 10: MORTGAGE NOTES

Long-term debt is composed of 1.274% to 8.10% mortgage notes payable to the Federal Financing Bank, the Rural Utilities Service (RUS) of the United States of America and the National Rural Utilities Cooperative Finance Corporation (CFC). The CoBank note was scheduled to mature in September 2013, but was refinanced during the year by the issuance of mortgage notes to Federal Financing Bank. 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 May 2013 through January 2046.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10: MORTGAGE NOTES - continued

Detail of the long-term debt is as follows:

	2012	2011
Federal Financing Bank notes bearing interest at 2.52% to 2.87% per annum, payable in monthly and quarterly installments through 2046.	\$ 70,394,813	\$ 67,762,000
Rural Utilities Service notes bearing interest at 3.75% to 5.23% per annum, payable in monthly and quarterly installments through 2042.	27,197,306	27,838,510
National Rural Utilities Cooperation Finance Corporation notes bearing interest at 5.40% to 8.1% per annum, payable in quarterly installment to the year 2032.	3,123,330	3,712,788
Notes payable to Freddie Mac in quarterly installments of \$137,814, Including interest at 1.274%, with final maturity ranging from 2013 to 2034. Secured by substantially all assets.	3,567,412	3,798,951
	104,282,862	103,112,249
Less:		
RUS Cushion of credit	184,613	386,695
Current maturities	2,901,677	1,619,500
TOTAL LONG-TERM DEBT	\$ 101,196,572	\$ 101,106,054

Unadvanced loan funds were available to Cloverland on the loan commitments from RUS/FFB in the amount of \$31,543,000 for 2012 and \$34,238,000 for 2011. Unadvanced loan funds were available to Cloverland on the loan commitments from CFC in the amount of \$-0- for 2012 and 2011, respectively.

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

2013	\$ 2,901,677
2014	3,007,839
2015	2,910,518
2016	2,605,329
2017	2,693,573

The loan agreement requires certain financial ratios to be met in the operation and management of its business. The company did meet these ratios for 2012.

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 2012 and 2011, respectively. The Cooperative had an outstanding balance of \$-0- for 2012 and 2011. Interest at December 31, 2012 was charged at 3.2%.

The Cooperative has available a line of credit with CoBank in the amount of \$15,000,000 for 2012. The Cooperative had an outstanding balance of \$11,250,000 for 2012 and \$6,750,000 in 2011. Interest at December 31, 2012 was charged at 3.21%.

Maximum short term loan allowed by CFC and CoBank agreement is \$15,000,000 in any combination of either or both sources.

NOTE 12: DEFERRED DEBITS AND CREDITS

The balance of deferred credits at December 31, 2012 consists of a land contract receivable from the sale of vacant property to a governmental unit and a deferred regulatory asset relating to pension obligations assumed pursuant to the acquisition of Edison Sault Electric. The land contract is to be paid to the Cooperative over ten years. The balance was \$11,500 and \$23,000 at December 31, 2012 and December 31, 2011, respectively. The balance of the regulatory pension asset was \$10,997,889 at December 31, 2012 and December 31, 2011. The Cooperative has concluded that substantially all of the unrecognized costs resulting from the recognition of the funded status of the pension and OPEB plans qualify as a regulatory asset.

The balance of deferred credits at December 31, 2012 and 2011 consists of consumers deposits for memberships, connection fees and aid to construction. The balances for these amounts were \$237 for both 2012 and 2011.

NOTE 13: PARTICIPATION IN THE RETIREMENT SECURITY PLAN

Narrative Description - The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Plan Information – Cloverland's contributions to the RS Plan in 2012 and in 2011 represented less than 5 percent of the total contributions made to the plan by all participating employers. Cloverland made contributions to the plan of \$1,026,388 in 2012 and \$1,043,916 in 2011. Contributions to the savings program, which are based on a percentage of the employee's compensation, were \$503,098 and \$472,503 in 2012 and 2011, respectively. There have been no significant changes that affect the comparability of 2012 and 2011 contributions.

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

NOTE 13: PARTICIPATION IN THE RETIREMENT SECURITY PLAN – continued

In the RS Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was between 65 percent and 80 percent funded at January 1, 2012 and January 1, 2011 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

NOTE 14: NON-CASH INVESTING AND FINANCING ACTIVITIES

Non-cash investing activities for 2012 and 2011 were as follows:

	2012	2011
Patronage capital allocated	\$ 222,385	\$ 659,729
Materials salvaged from inventory	824	4,830
Capital credits applied to accounts receivable	176,743	157,305
Capitalized depreciation	174,440	238,157

NOTE 15: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

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

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

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

Components of Benefit Cost	2012	2011
Service Cost	\$ 1,021	\$ 1,021
Interest Cost	58,738	58,738
Amortization of transition obligation	24,219	24,219
Recognition of net Gain/loss	10,936	10,936
Prior Service Cost	74,055	74,055
Net periodic post-retirement benefit cost	\$ 168,969	\$ 168,969

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

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

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

Change in Benefit Obligation	2012	2011
Benefit obligation at beginning of year	\$ 1,304,447	\$ 1,262,932
Interest cost	58,738	58,738
Unrecognized prior service cost	110,231	110,231
Net actuarial loss/(gain) for the prior year		
Benefits paid	(156,224)	(127,454)
Benefit obligation at end of year	\$ 1,317,192	\$ 1,304,447
 Change in Plan Assets		
Fair value of plan assets at beginning of year		
Actual return on plan assets		
Employer contributions	\$ 156,224	\$ 127,454
Benefits paid	(156,224)	(127,454)
Fair value of plan assets at end of year	\$ -	\$ -
Recognized Benefit Obligation	\$ (1,317,192)	\$ (1,304,447)
Amounts Recognized in Accumulated Other Comprehensive Loss – Beginning	\$ 708,268	\$ 708,268
Amounts Recognized in Accumulated Other Comprehensive Loss	\$ 708,268	\$ 708,268

For measurement purposes a 9.0% and 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012 and 2011, respectively. The rate was assumed to decrease gradually by 0.5% per year to an ultimate rate of 5.0% per annum

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

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

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

Expected benefit payments for 2013 are estimated at \$112,087, \$120,018 for 2014, \$114,377 for 2015, \$345,728 for 2016 and \$350,000 for 2017.

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, 2012.

NOTE 16: LEASES AND POWER PURCHASE AGREEMENTS

The Cooperative's primary source of generation is its 30-megawatt hydroelectric-generating plant located on the St. Marys River in Sault Ste. Marie, Michigan. The water for this facility is leased under a contract with the United States Corps of Engineers with tenure to December 31, 2075. However, the Secretary of the Army has the right to terminate the contract subsequent to December 2050 by providing at least a five-year termination notice. No such notice can be given prior to December 31, 2045. The Cooperative pays for all water taken from the St. Marys River at predetermined rates with a minimum annual payment of \$200,000. Rentals under this contract were \$785,172 in 2012. The total flow of water taken out of Lake Superior, which in effect is the flow of water in the St. Marys River, is under the direction and control of the International Joint Commission, created by the Boundary Water Treaty of 1909 between the United States and Great Britain, now represented by Canada.

The International Joint Commission places limitations on the flow of water from Lake Superior that limits Cloverland's amount of hydroelectric generation. Water elevation levels on Lake Superior have been below normal levels since 1998, resulting in decreased water release. During any limited flow months, it is necessary for the Cooperative to purchase additional power from other sources or increase the use of the Cooperative's diesel generation. Water elevation levels on Lake Superior in 2007 approached or exceeded all-time record seasonal lows, resulting in less water available for hydroelectric operation. Water elevation levels on Lake Superior are still well below normal elevation levels. In 2012, the water elevations improved over 2007 levels, but continue to be below normal.

Hydroelectric generation is also purchased by Edison Sault Electric Company, LLC under contract from the United States Corps of Engineers' hydroelectric-generating plant located within the Soo Locks complex on the St. Marys River in Sault Ste. Marie, Michigan. This 17-megawatt contract has tenure to November 1, 2040, and cannot be terminated by the United States Government prior to November 1, 2030. Payments under the contract were \$1,837,683 and \$1,832,362 in 2012 and 2011, respectively, with modifications to such payments for power outages and the cost of designated repairs in excess of the federal share of such costs. Annual payments are subject to re-negotiation every five years, and the re-negotiation increasing the payment to \$1,850,948 was approved in January 2009.

NOTE 17: COMMITMENTS AND CONTINGENCIES

St. Ignace division Remediation Project - A decommissioned diesel-generating site located at the St. Ignace Division's service center is currently being remediated for diesel fuel. The Michigan Department of Natural Resources and Environment (DNRE) is working with the Cooperative at the site. The cost of monitoring and remediation was \$33,611 and \$45,076, for the years ended December 31, 2012 and 2011, respectively. At this time, we cannot reasonably estimate future monitoring and remediation expenses.

CLOVERLAND ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 18: DEFERRED COMPENSATION

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

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

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

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

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

NOTE 19: RELATED PARTY TRANSACTIONS

Lighthouse.Net (Lighthouse) is a wholly-owned subsidiary of Cloverland Electric Cooperative, Inc. (Cloverland). Cloverland has furnished personnel and other operation facilities such as bookkeeping and computer services for Lighthouse. During the year Cloverland has charged Lighthouse for these services. There was an inter-company receivable at December 31, 2012 and 2011 of \$2,146 and \$9,477 respectively.

NOTE 20: LETTERS OF CREDIT

The Cooperative has a letter of credit outstanding to the Midwest Independent Transmission System Operator (MISO) for \$1,500,000 at December 31, 2012. This letter of credit is required in order to mitigate risk of loss in financial operations.

Also, the Cooperative has a letter of credit outstanding to the Michigan Department of Environmental Quality for \$30,000 at December 31, 2012. This letter of credit is required for wetlands mitigation.

NOTE 21: SUBSEQUENT EVENTS

Cooperative management has evaluated the impact of subsequent events as they relate to the financial statements through May 2, 2013, the date of issuance of the financial statements.



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

May 2, 2013

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

We have audited the financial statements of Cloverland Electric Cooperative, Inc. for the year ended December 31, 2012, and have issued our report thereon dated May 2, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cloverland Electric Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cloverland Electric Cooperative internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cloverland Electric Cooperative's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

FINDING 2012-01

Material Weakness in Internal Control Over Financial Reporting -Material Audit Adjustments

Criteria: Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition: During our audit, we identified and proposed two material adjustments (which were approved and posted by management) to adjust the Cooperative's general ledger to the appropriate balances. These adjustments included entries to adjust PSCR and Energy Optimization expenses to agree balance sheet accounts to supporting detail, and to correct other entries for conformity with GAAP.

Cause: This condition was the result of staff error and staff communication issues.

Effect: As result of this condition, The Cooperative's accounting records were initially misstated by amounts material to the financial statements.

Recommendation:

We recommend that Cooperative staff complete a detailed monthly review of the internally generated financial statements compared to source data information.

View of Responsible Officials:

Management has determined that an increase in the scope of the monthly financial statement review will insure financial statements are properly stated.

Compliance and other matters

As part of obtaining reasonable assurance about whether Cloverland Electric Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Certified Public Accountants

LIGHTHOUSE.NET
REPORT ON FINANCIAL STATEMENTS
(With Supplementary Data)
YEARS ENDED DECEMBER 31, 2012 AND 2011

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LIGHTHOUSE.NET
DECEMBER 31, 2012

BOARD OF DIRECTORS

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

OTHERS

Steven Mason	Manager
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Independent Auditor's Report

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

We have audited the accompanying balance sheets of Lighthouse.Net as of December 31, 2012 and 2011 and the related statements of net income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of Lighthouse.Net's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lighthouse.Net as of December 31, 2012 and 2011 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.

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

May 2, 2013

LIGHTHOUSE.NET
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash	\$ 148,506	\$ 123,427
Accounts receivable, less allowance for doubtful accounts of \$1,141 and \$5,544 for 2012 and 2011, respectively	52,303	31,004
Materials and supplies	69,195	37,311
Prepaid expenses	7,719	4,835
Prepaid Federal income tax	31,200	17,500
 TOTAL CURRENT ASSETS	 308,923	 214,077
 PROPERTY AND EQUIPMENT, less accumulated depreciation	 1,190,929	 1,017,617
OTHER ASSETS:		
Investments in associated organization	120,357	123,039
Goodwill	243,301	243,301
 TOTAL OTHER ASSETS	 363,658	 366,340
 DEFERRED CHARGES, NET OF AMORTIZATION	 13,995	 17,422
 TOTAL ASSETS	 \$ 1,877,505	 \$ 1,615,456

The accompanying notes are an integral part of these statements.

	<u>2012</u>	<u>2011</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Current maturities of long term debt	\$ 85,078	\$ 69,296
Accounts payable	38,175	20,591
Customer deposits	165,063	99,181
Accrued liabilities	<u>38,902</u>	<u>39,667</u>
TOTAL CURRENT LIABILITIES	327,218	228,735
DEFERRED TAX LIABILITY	54,500	41,085
LONG-TERM DEBT, less current maturities	<u>820,256</u>	<u>668,686</u>
TOTAL LIABILITIES	<u>1,201,974</u>	<u>938,506</u>
STOCKHOLDER'S EQUITY:		
Common stock non-par 60,000 shares authorized, 10,000 shares issued and outstanding	30,000	30,000
Additional paid - in capital	195,000	195,000
Retained earnings	<u>450,531</u>	<u>451,950</u>
TOTAL STOCKHOLDER'S EQUITY	<u>675,531</u>	<u>676,950</u>
TOTAL LIABILITIES & STOCKHOLDER'S EQUITY	<u><u>\$ 1,877,505</u></u>	<u><u>\$ 1,615,456</u></u>

LIGHTHOUSE.NET
STATEMENTS OF NET INCOME AND
RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Net Sales	\$ 1,457,751	\$ 1,321,212
Cost of Sales	672,500	632,474
Gross Profit From Operations	785,251	688,738
General & Administrative Expenses	783,452	706,490
Net Income (Loss) From Operations	1,799	(17,752)
Other Income (Expenses):		
Rental income	44,303	37,802
Interest expense	(52,569)	(38,538)
Interest income	1,724	2,466
Income from associated organization	3,039	25,389
Total Other Income (Expenses) – net	(3,503)	27,119
Net Income (Loss) before income taxes	(1,704)	9,367
Income tax benefit (expense)	285	(2,136)
NET INCOME (LOSS)	(1,419)	7,231
RETAINED EARNINGS, beginning of year	451,950	444,719
RETAINED EARNINGS, ending of year	\$ 450,531	\$ 451,950

The accompanying notes are an integral part of these statements.

LIGHTHOUSE.NET
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,502,334	\$ 1,373,714
Cash paid to suppliers and employees	(1,349,871)	(1,236,335)
Rent income received	44,303	37,802
Interest received	1,724	2,466
Interest paid	(52,569)	(38,538)
Taxes paid	(19,028)	(22,282)
	126,893	116,827
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(274,886)	(484,517)
Investment in associated organization	5,721	7,617
Purchase of acquisition goodwill		(117,711)
	(269,165)	(594,611)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on debt	(66,699)	(43,640)
Issuance of debt	234,050	555,733
Deferred debits		(17,422)
	167,351	494,671
NET INCREASE IN CASH	25,079	16,887
CASH, beginning of year	123,427	106,540
CASH, end of year	\$ 148,506	\$ 123,427

The accompanying notes are an integral part of these statements.

LIGHTHOUSE.NET
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

	2012	2011
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$ (1,419)	\$ 7,231
Adjustments to reconcile net income to net cash provided by		
Operating activities:		
Depreciation and amortization	105,002	103,092
Income from associated organization	(3,039)	(25,389)
(Increase) decrease in:		
Customer accounts receivable	(21,299)	37,358
Inventory	(31,884)	(15,200)
Prepaid expenses	(16,584)	(1,982)
Increases (decrease) in:		
Accounts payable	17,584	(13,240)
Customer deposits	65,882	15,144
Accrued liabilities	12,650	9,813
Total Adjustments	128,312	109,596
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 126,893	\$ 116,827

The accompanying notes are an integral part of these statements.

LIGHTHOUSE.NET
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

On May 5, 2011, Lighthouse.Net purchased the assets and customer list of the Mackinac Island Cable Company, a subsidiary of Michigan Cable Partners, Inc. for \$400,000. This subsidiary is the exclusive provider of cable television and broadband internet services to Mackinac Island, Mi.

On October 31, 2012, Lighthouse.Net purchased the assets and customer list of the Upper Peninsula Communications, Inc. for \$98,100. This company is the provider of cable television services in Portage and Garfield Townships, Mackinac County, MI.

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

Accounting Method

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

Cash

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

Accounts Receivable

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

Materials and Supplies

Computer materials and supplies for resale are valued at the lower of cost or market using the average cost method.

Equipment

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

LIGHTHOUSE.NET
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Advertising

The cost of advertising is expensed as incurred.

NOTE 2: CASH AND INVESTMENTS

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

		Per Institution
Insured	\$	183,144
Uninsured		-
Total deposits at banks		183,144
Working funds		200
Undeposited funds		19,117
In transit items		(53,955)
Total Cash	\$	148,506

NOTE 3: PROPERTY AND EQUIPMENT

Equipment in service consisted of the following at December 31, 2012 and 2011:

	2012		2011
Building	\$ 545,740	\$	539,740
Land	80,793		80,793
Equipment – internet	472,711		474,851
Furniture and fixtures	33,751		31,457
Equipment	770,174		463,640
	1,903,169		1,590,481
Work in progress	89,380		136,663
	1,992,549		1,727,144
Less accumulated depreciation	801,620		709,527
	\$ 1,190,929		\$ 1,017,617

Depreciation of equipment in service amounted to \$101,575 and \$103,092 for the years ended December 31, 2012 and 2011, respectively.

LIGHTHOUSE.NET
NOTES TO FINANCIAL STATEMENTS

NOTE 4: GOODWILL

The carrying amount of Goodwill for the years ended December 31, 2012 and 2011 was \$243,301. The requirements of Statement of Financial Accounting standards No. 142, “*Goodwill and Other Intangible Assets*,” requires that Goodwill be valued at its fair market value and adjusted annually for any impairment losses. Management has determined that there has been no impairment in the carrying value of the Goodwill.

NOTE 5: LONG-TERM DEBT

Details of long-term debt consists of the following:

	2012	2011
Note payable-Bank. Monthly installment payments of \$2,095, including interest at 6.85%, until November 20, 2012, with a final payment of \$1,048 due on December 24, 2021. Secured by land and building.	\$ 183,497	\$ 197,116
Note payable-Bank. Monthly installment payments of \$6,995, including interest at 7.0%, until May 5, 2021, Secured by cable television equipment.	552,299	528,986
Note payable-Bank. Monthly installment payments of \$3,667, including interest at 7.0%, until November 1, 2027. Secured by the cable television equipment. ***there is \$236,916 in unadvanced loan funds available to be drawn on this loan until November 1, 2027.	164,611	-
Vehicle loan-Bank. Monthly installment payments of \$627, including interest at 5.0%, until August 1, 2013. Secured by the vehicle purchased.	4,927	11,880
	905,334	737,982
Less current maturities	85,078	69,296
TOTAL LONG-TERM DEBT	\$ 820,256	\$ 668,686

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

2013	\$	85,078
2014		91,567
2015		98,154
2016		108,704
2017		113,041
2018-2021		408,790
Total	\$	905,334

LIGHTHOUSE.NET
NOTES TO FINANCIAL STATEMENTS

NOTE 6: RELATED PARTY TRANSACTIONS

Lighthouse.Net (Lighthouse) is a wholly-owned subsidiary of Cloverland Electric Cooperative, Inc. (Cloverland). Cloverland has furnished personnel and other operational facilities such as bookkeeping and computer services for Lighthouse. During the year Cloverland has charged Lighthouse for these services. There was an inter-company payable at December 31, 2012 and 2011 of \$2,146 and \$9,477, respectively.

NOTE 7: INCOME TAXES

The detail of the deferred tax asset is as follows:

	<u>2012</u>	<u>2011</u>
Deferred tax asset arising from:		
Timing difference	\$ 6,490	\$ 6,588
Deferred tax liability arising from:		
Accumulated depreciation for tax purposes in excess of book	<u>(60,990)</u>	<u>(47,673)</u>
Net deferred tax asset (liability)	<u>\$ (54,500)</u>	<u>\$ (41,085)</u>

The detail of income tax expense is as follows:

	<u>2012</u>	<u>2011</u>
Current operations	\$ 13,700	\$ 3,000
Deferred taxes	<u>(13,415)</u>	<u>(5,136)</u>
Total income tax benefit (expense)	<u>\$ 285</u>	<u>\$ (2,136)</u>

LIGHTHOUSE.NET
NOTES TO FINANCIAL STATEMENTS

NOTE 8: RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2012 presentation.

NOTE 9: RETIREMENT PLAN

Retirement plan benefits for substantially all employees are provided through participation in a retirement savings plan of the National Rural Electric Cooperative Association (NRECA) and its member systems. The income earned by funds while held under the plans is tax-exempt under Code Sections 401 and 501 of the Internal Revenue Code. Contributions to the savings program, which are based on a percentage of the employees' compensation, were \$7,848 in 2012 and \$8,191 in 2011.

NOTE 10: SUBSEQUENT EVENTS

Lighthouse.Net management has evaluated the impact of subsequent events as they relate to the financial statements through May 2, 2013, the date of issuance of the financial statements.

SUPPLEMENTARY DATA

LIGHTHOUSE.NET
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Salaries and wages	\$ 238,330	\$ 243,805
Depreciation	101,575	103,092
Rent	92,387	53,792
Insurance – employee health & life	67,036	54,764
Property and other taxes	43,982	46,597
Utilities and telephone	35,118	27,728
Advertising	30,019	17,823
Other outside services	25,663	2,142
Transportation	25,386	20,213
Bank and credit card fees	20,440	19,157
Miscellaneous supplies	12,636	16,043
Legal and accounting	11,700	9,225
Meals and entertainment	8,106	7,290
Charitable contributions	8,077	9,311
Pension	7,848	8,191
Data processing	7,800	7,800
Travel and meetings	7,307	8,136
Office supplies	7,218	6,291
Building maintenance and cleaning supplies	6,886	6,194
Postage and shipping	5,445	4,572
Dues and subscriptions	5,441	8,735
Board meeting expenses	4,066	4,198
Amortization	3,427	961
Uncollectible accounts	2,600	9,500
Administrative fees paid to Cloverland Electric Cooperative	1,650	2,433
Michigan business tax	1,500	1,500
Employee training	1,497	6,041
Insurance	312	956
	<u>783,452</u>	<u>706,490</u>
TOTAL	<u>\$ 783,452</u>	<u>\$ 706,490</u>



HARRIS GROUP

Certified Public Accountants

May 2, 2013

To the Audit Committee
Cloverland Electric Cooperative

We have audited the financial statements of Cloverland Electric Cooperative for the year ended December 31, 2012, and have issued our report thereon dated May 2, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 8, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Cloverland Electric Cooperative are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the seasonal and unbilled revenue is based on information obtained from the customer history and the cycle billing process. We evaluated the key factors and assumptions used to develop the unbilled revenue in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We did identify and propose two material journal entries during the course of our audit. We have summarized this finding in the *Governmental Auditing Standards* letter with the audit report as finding 2012-01.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 2, 2013.

Management Consultations with Other Independent Accountants

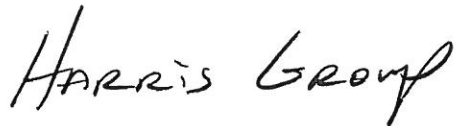
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Finance Committee and management of Cloverland Electric Cooperative and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Harris Group".

Certified Public Accountants



HARRIS GROUP

Certified Public Accountants

May 2, 2013

Members of the Board of Directors
Cloverland Electric Cooperative
Dafer, Michigan

We have audited the financial statements of Cloverland Electric Cooperative for the year ended December 31, 2012 and have issued our report thereon dated May 2, 2013. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Cloverland Electric Cooperative for the year ended December 31, 2012, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Section 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(1), related party transactions, depreciation rates, a schedule of deferred charges and credits, and a schedule of investments, upon which we express an opinion. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, and our independent report on internal control over financial reporting and on compliance and other matters, all dated May 2, 2013) or summary of recommendations related to our audit have been furnished to management.

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Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding Cloverland Electric Cooperative's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records, except;
 - During our audit, we did identify and propose two material journal entries, which were approved and posted by management. These entries were to adjust the Power Supply Cost Recovery revenue and receivable and to adjust the Energy Optimization expenses.
- The process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts; and
- The materials control.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended December 31, 2012:
 1. Obtained and read a borrower prepared schedule of new written contracts entered into during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 7 CFR 1773.33(e)(1)(i).
 2. Reviewed Board of Director minutes to ascertain whether board-approved written contracts are included in the borrower-prepared schedule.
 3. Noted the existence of written RUS and CFC approval of each contract listed by the borrower.
- Procedure performed with respect to the requirement to submit RUS Form 7 to the RUS:
 1. Agreed amounts reported in Form 7 to Cloverland Electric Cooperative's records.

The results of our tests indicate that, with respect to the items tested, Cloverland Electric Cooperative complied, except as noted below, in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has obtained written approval of the RUS and CFC to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others as defined in Section 1773.33(d)(1)(i); and
- The borrower has submitted its Form 7 to the RUS and the Form 7, Financial and Statistical Report, as of December 31, 2012, represented by the borrower as having been submitted to RUS is in agreement with the Cloverland Electric Cooperative's audited records in all material respects, appears reasonable based upon the audit procedures performed.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of Cloverland Electric Cooperative, nothing came to our attention that caused us to believe that Cloverland Electric Cooperative failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2); Except:
 - The Cooperative needs to review its procedures for closing work orders, we found work orders that should have been closed during the year, and had not. It was determined that these work orders have not been closed due to Township mapping issues, the Cooperative is working to resolve this issue with Township mapping.
- The retirement of plant addressed at 7 CFR Part 1773.33(c)(3) and (4);
- Approval of the sale, lease or transfer of capital assets and the disposition of proceeds for the sale, or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2012, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);
- The depreciation rates addressed at 7 CFR Part 1773.33(g);
- The detailed schedule of deferred debits and deferred credits.
- The detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and credits required by 7 CFR Part 1773.33(h) and the detailed schedule of investments in affiliated companies required by 7 CFR Part 1773.33(i) and provided below is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deferred debits for Cloverland Electric Cooperative as of December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Regulatory pension asset	\$ 10,997,889	\$ 10,997,889
Land Contract receivable	<u>11,500</u>	<u>23,000</u>
	<u>\$ 11,009,389</u>	<u>\$ 11,020,889</u>

Deferred credits for Cloverland Electric Cooperative as of December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Construction Advances	<u>\$ 237</u>	<u>\$ 237</u>

The detailed schedule of investments in affiliated companies for Cloverland Electric Cooperative for December 31, 2012 is as follows:

	<u>Lighthouse.Net</u>
Original investment	\$ 225,000
Net undistributed income, to date, as of December 31,2011	<u>451,950</u>
Book value as of December 31, 2011	676,950
Undistributed loss during 2012	<u>(1,419)</u>
Book value as of December 31, 2012	<u>\$ 675,531</u>

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants