



**Cloverland**  
ELECTRIC COOPERATIVE

# 2012 Annual Report

Cloverland Electric Cooperative is focused on providing exceptional service to its members through the delivery of safe, reliable and affordable electricity.



# Our Message

**W**e're facing challenging times. At a time when corporate profits sometimes overwhelm common sense, it's nice to know you're part of something different. We're not looking out for a stockholder's best interests—we're looking out for you. Your electric co-op is doing everything possible to provide reliable, affordable energy, create jobs, and power our local economy.

We're proud of our long-standing commitment to you and the communities we serve. Last year, we received the Award of Distinction from United Way of the E.U.P. for our annual contribution, which in turn benefited 17 local agencies. We sponsored and participated in many community events, awarded two \$1,500 college scholarships, and sent students to leadership conferences in Michigan and Washington, D.C.

Every step along the way, we put you—our member-owners—first. We are focused on keeping electric bills affordable and controlling costs. For every dollar you pay for electricity, 61 cents is spent to purchase power and pay for transmission. Federal regulations will impact that cost, but other factors will influence it, too. It's hard to predict the future, but one thing seems certain—government regulations such as new Environmental Protection Agency standards for generation plants will increase the cost of doing business. New regulations will replace low-cost generation with ultimately higher cost generation.

We are experiencing little kilowatt-hour growth and our revenues from electric sales are declining. Without significant economic growth in our region, this trend will continue. Our recent cost-of-service study analyzed our revenues, cost of power, and expenses. This study will lead us down the path toward increasing revenue, reducing the number of existing legacy rate classes, and making sure all rate classes pay their fair share of the costs.

We're doing our part to manage costs through our investments in technology. Our state-of-the-art automatic meter reading system is helping us reduce operating costs not only during outages, but throughout our day-to-day operations. Our investment in a new mapping system will give us quick and easy access to the location of every piece of inventory on our system.

While our new technology is helping us to reduce costs and improve operational efficiencies, our Energy Optimization programs are helping you better manage your energy use. There are many residential and commercial incentives available to members who invest in more energy efficient lighting, appliances and equipment. Little changes can add up to big savings on your electric bill.

Costs are rising for all of us, but when it comes to your electric bill, our rates are set simply to cover the cost of doing business and not to generate profits for distant stockholders. In fact, we give money back to you when our revenues exceed costs through a capital credit retirement process.

We're different. We're working hard to keep your electric bills affordable and continue to put you, our members, first. No matter what the future brings, one thing is certain—we're looking out for you.



**Daniel Dasho**  
President & CEO



**Robert Schallip**  
Chairperson

Membership is  
**Ownership**

**Safety** Last year was another good year with only one lost-time accident. We are proud of the efforts our employees put into creating and maintaining a culture of safety. Our safety program helps foster safe practices while reducing insurance costs for the co-op.

**Reliability** Tree trimming and brush clearing along our 3,475 miles of rights-of-way is essential. In 2012, we cleared nearly 270 miles—a \$1.3 million investment in safety and service reliability. A properly maintained right of way significantly reduces the length of an outage. Last year, the average length of our outages decreased by 23 percent compared to our 5-year average.

We rebuilt 49 miles of distribution line that had served its useful life and made necessary improvements to 11 substations.

Last year, the American Transmission Company began two, multi-million dollar reliability projects in our service area. They are rebuilding a 25-mile high-voltage transmission line from Rudyard to St. Ignace and constructing a substation in St. Ignace that will house a high-voltage, direct-current power control device to better manage the flow of power into and out of the Upper Peninsula. The new 138-kilovolt transmission line will reduce energy loss, improve power routing, and reduce operations and maintenance. The American Transmission Company owns and maintains the transmission lines in the Upper Peninsula.

**Technology** We are computerizing our mapping system based on Geographical Information System technology. We are collecting data at each pole location so we can quickly identify and account for all the electrical facilities at a specific location. These maps can be quickly updated as equipment is added or removed.

We are in the final stages of deploying our automated metering infrastructure, which enables staff to pinpoint outages. It can also provide you with additional data about your energy use. Staff can obtain a meter reading within a few seconds by sending a signal from our office to a meter anywhere in our service area using the same power lines that we use to deliver electricity. That's efficient.

**Generation** Low lake levels prompted the construction of temporary weirs at the hydro plant last fall. This creative solution raised the water level in the hydro turbine's discharge pit area so the turbines could continue to operate at maximum output; otherwise, we would have been forced to increase our power purchases from more costly resources.

Besides our hydro generation, we also have diesel generators in Dafer, DeTour and Manistique. By operating these units for peak shaving, we realized a savings of \$2.2 million on our power purchases. These savings are passed along to members through the Power Supply Cost Recovery Factor (PSCR), which is used to adjust for fluctuations in our power costs. The PSCR appears as a separate line item on your monthly bill.

**Employees** We employ 112 full-time office and field personnel and 3 Lake Superior State University student interns. In 2012, we honored 22 employees for their years of service. Fauncy Sawasky, Roger Bawks and DeLynn Paul were recognized for serving the co-op and its members for over 30 years. We also welcomed 9 full-time employees and wished 4 employees a happy retirement—James Tennyson, Donald Autore, John Paquette Sr., and Robert Sylvestre.

# Revenue and Expenses

<b>Operating Statement</b>	<b>2012</b>	<b>2011</b>
Electric Energy Revenue	\$ 81,828,355	\$ 85,476,845
Capital Credits Received from Associations	222,385	659,729
<b>Total Operating Revenue</b>	<b>\$ 82,050,740</b>	<b>\$ 86,136,574</b>
Generating Expenses	\$ 3,607,156	\$ 3,164,252
Cost of Purchased Power	44,072,682	48,033,879
Transmission Expense	6,966,782	6,070,419
Operations	3,176,971	3,226,660
Maintenance	4,979,750	4,959,060
Consumer Accounting and Collections	1,996,228	3,920,322
Customer Service	1,374,844	683,239
Sales Expense	167,903	171,193
Administrative and General	4,771,957	5,152,139
Taxes: Property	2,405,055	2,491,292
Taxes: Payroll and Business	22,917	166,921
Interest on Long Term Debt	3,780,501	2,208,587
Interest Expense: Other	323,969	907,701
Depreciation Expense	3,809,856	3,744,705
<b>Total Operating Expenses</b>	<b>\$ 81,456,571</b>	<b>\$ 84,900,369</b>
Operating Margins	\$ 594,169	\$ 1,236,205
Total Non-Operating Margins	1,040,337	907,936
<b>Total Margins</b>	<b>\$ 1,634,506</b>	<b>\$ 2,144,141</b>



## Where Does it Go?

For every dollar paid to the cooperative, 61 cents is spent on purchased power and transmission costs.

61¢

- 14¢ Labor & Benefits
- 12¢ Generation, Operations & Other
- 4¢ Interest
- 4¢ Depreciation
- 3¢ Taxes
- 2¢ Margins

Members' Economic Participation

# Balance Sheet



## Assets

Net Utility Plant \$ 116,265,941

## Current and Other Assets

General Fund Cash and Temporary Investments \$ 293,793

Investments-Associated Organizations 10,911,672

Accounts Receivable 8,712,870

Materials and Supplies 3,812,020

Other Assets and Prepaid Expenses 11,430,990

**Total Current and Other Assets \$ 35,161,345**

**Total Assets \$ 151,427,286**

## Liabilities

Long Term Obligations to RUS<sup>1</sup> and FFB<sup>2</sup> \$ 95,332,365

Long Term Obligations to CFC<sup>3</sup> 5,864,207

Current and Accrued Liabilities 25,187,160

Non-current Liabilities 1,307,790

**Total Liabilities \$ 127,691,522**

## Equities

Membership Fees \$ 101,490

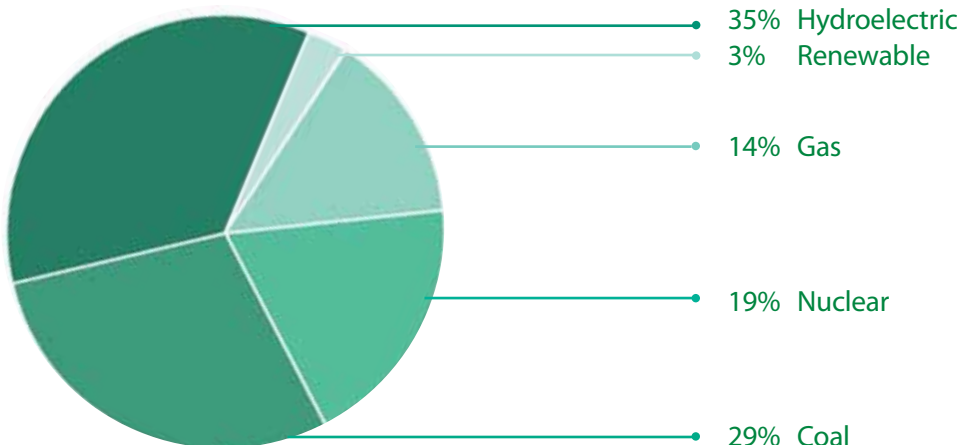
Margins and Other Equities 23,634,274

**Total Equities \$ 23,735,764**

**Total Liabilities and Equities \$ 151,427,286**

<sup>1</sup>Rural Utilities Service <sup>2</sup>Federal Financing Bank <sup>3</sup>Cooperative Finance Corporation

## Fuel Mix



**823.4 million**  
kilowatt-hours  
purchased by our  
members

# Member Benefits

As a member-owned, not-for-profit electric cooperative, we allocate any margins (profits) as capital credits to each member's account. Your annual allocation is based on the amount of electricity you purchased the prior year. Over time, we retire and return capital credits to you. Until then, we use these funds to operate the cooperative.

Last fall, the board of directors authorized the retirement and payment of \$1 million in capital credits. Your share of this retirement was approximately 5 percent of the unretired capital credits in your account. If your payment was \$25 or less, the amount was applied to your bill as a credit. Approximately 26,800 members received a credit on their bill. Over 11,600 active and inactive accounts received a check of \$25 or more.

## \$1 Million Capital Credit Retirement



Commitment to community is one of the cooperative's seven guiding principles—it is the cooperative spirit in action. In 2012, your cooperative invested \$45,000 into the communities we serve which in turn benefited over 60 organizations. Our community outreach activities included volunteer support, event sponsorships and donations. We are proud to be a leading United Way of the E.U.P. business contributor. For the 2011-12 campaign, co-op contributions and those made by employees and directors totaled \$26,116.

Through our Commitment to Community program we respond to the needs of the communities we serve by providing support. Sometimes its monetary, other times it is a presence at a local event. In 2012, we recognized 50 employees for their participation in many of the community outreach events that took place either during the evening or on a weekend.

Keeping in touch and making ourselves available to you is important. Last year, we participated in outreach events from Drummond Island to Manistique. We also sponsored many learning opportunities for high school students. Several students attended the Michigan Electric Cooperative Association's Youth Leadership Summit and Devin Livingston of DeTour Village represented our co-op at the National Rural Electric Youth Tour in Washington, D.C. Aroon Devaprasad of Sault Ste. Marie and Tyler Ledy of Wyoming, MI, were our 2012 scholarship recipients. Both students received a \$1,500 scholarship.

“This trip has opened my eyes to so many amazing people and possibilities I had never imagined before...”

**Devin Livingston, DeTour High School**  
2012 Youth Tour Representative

Chippewa  
County  
Fair



Concern For Community

# Executive Team

## About Us

Total Services ..... 42,294  
 Miles of Line..... 3,475  
 Members Per Mile of Line ..... 12  
 Total Employees..... 112  
 Year Incorporated ..... 1938



**Ernie Maas**  
 Director of  
 Engineering and  
 Operations



**Lois Kenney**  
 Director of  
 Human Resources



**Robert Malaski**  
 CFO and Director of  
 Power Marketing and  
 Regulatory Affairs



**Charles Zane**  
 Director of  
 Information  
 Technology



**Wendy Malaska**  
 Director of Marketing,  
 Communications and  
 Member Services



**Phil Schmitgal**  
 Director  
 of Generation



**James Mackie**  
 Safety and Loss  
 Prevention  
 Coordinator

# Board of Directors

### Officers

**Robert Schallip**  
 Chairperson

**Dale Carlson**  
 Vice Chairperson

**Richard Newland**  
 Secretary/Treasurer

### District A Directors

**Dale Carlson**  
 Stalwart

**Gerald Nettleton**  
 DeTour Village

**Richard Newland**  
 DeTour Village

### District B Directors

**Linda Hoath**  
 Sault Ste. Marie

**Charles Litzner**  
 Sault Ste. Marie

**Robert Schallip**  
 Neebish Island

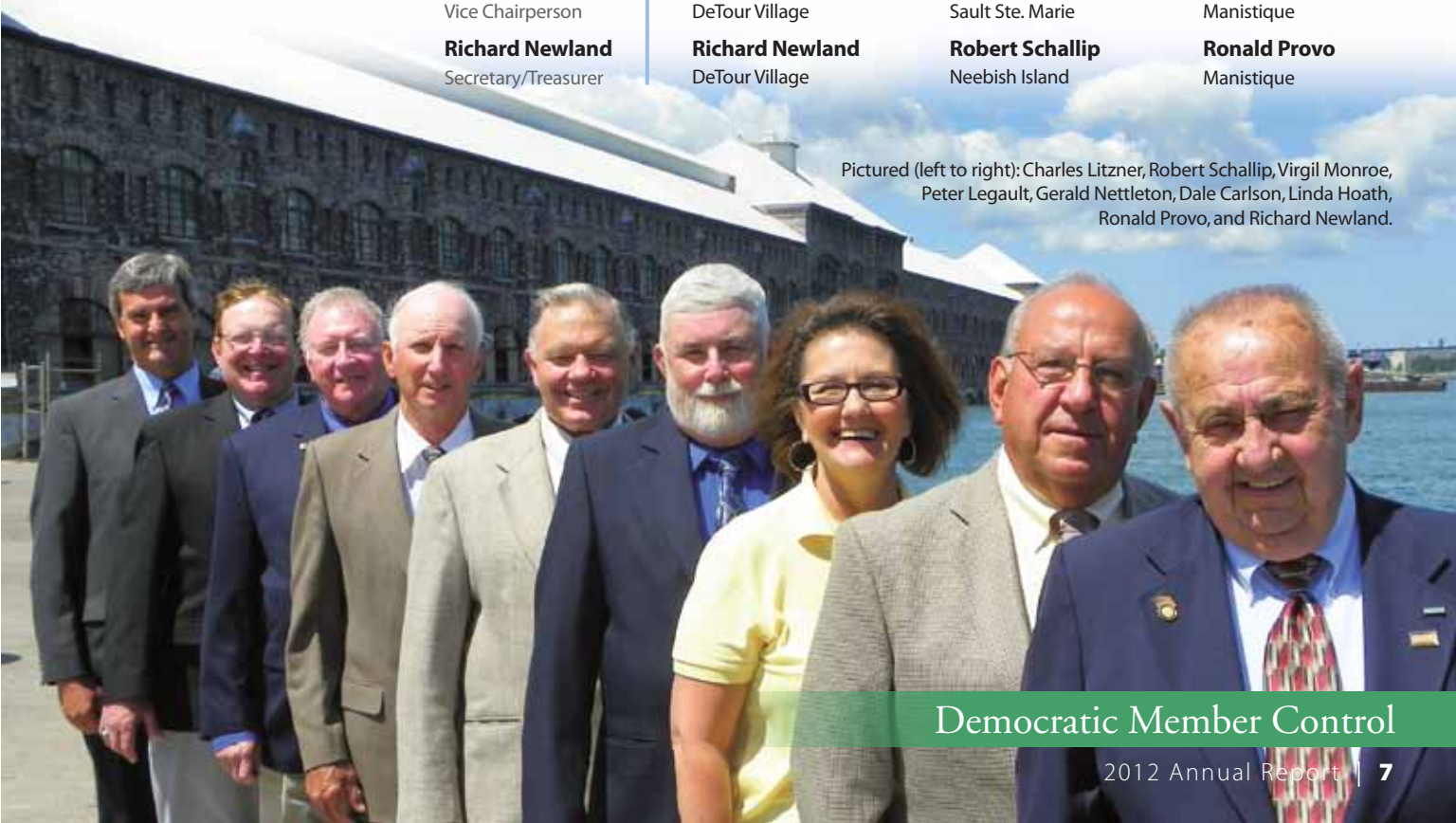
### District C Directors

**Peter Legault**  
 Engadine

**Virgil Monroe**  
 Manistique

**Ronald Provo**  
 Manistique

Pictured (left to right): Charles Litzner, Robert Schallip, Virgil Monroe, Peter Legault, Gerald Nettleton, Dale Carlson, Linda Hoath, Ronald Provo, and Richard Newland.



# Energy Optimization

Through member participation in our Energy Optimization (EO) program, we achieved 90 percent of our energy savings goal required under Michigan Public Act 295 and saved over 7.3 million kilowatt-hours. Over 1,800 members purchased and installed more than 40,000 energy-saving measures and received over \$192,000 in rebates for lighting, appliance and equipment upgrades. The majority of our energy savings were attributable to our commercial and industrial program and residential ENERGY STAR® program.

We contract with the Michigan Electric Cooperative Association to administer our Energy Optimization plan in compliance with P.A. 295. Our Energy Optimization residential and commercial programs and rebates are funded through a mandated monthly billing EO surcharge.

Visit [michigan-energy.org](http://michigan-energy.org) for rebates and program information.



Lake Superior State University Enactus—  
The Green Project

## Independent Auditor's Report

**W**e have audited the balance sheets of Cloverland Electric Cooperative Inc., as of Dec. 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's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 Dec. 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, present fairly, in all material respects, the financial position of Cloverland as of Dec. 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 2, 2013, on our consideration of Cloverland'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.

— Harris Group, May 2, 2013