

# THE YEAR OF NEW RATES, A FEDERAL CASE AND STATE LEGISLATION

Cloverland has been involved in two very important electric related issues for more than three years: one at the state level and one at the federal level. The Michigan legislature spent more than two years debating the controversial energy legislation before passing it in the final minutes of the 2015-2016 lame duck session. Cloverland's concern was that the one sentence allowing the ore mine in Marquette to move 100 percent of their electric load to an alternate electric supplier was not removed. This exemption, written in 2008, has cost Cloverland time and money and led to the chain of events at the federal level which continues into 2017. Thankfully all of our state representatives in the UP plus one State Senator (Tom Caspersen) voted against the harmful legislation. In July, an administrative law judge with the Federal Energy Regulatory Commission (FERC) issued an initial decision stating the System Support Resource (SSR) payments for the Presque Isle Power Plant were "unjust and unreasonable." FERC is expected to issue the final order in the fall of 2017.

In June, we welcomed two new members to the board of directors: Jason St. Onge for District A; Carmine Bonacci Jr. for District B and Peter Legault was reelected in District C. The board was presented a cost of service study reviewing 2015 financial data to make sure revenue is covering the cost and expenses to provide reliable electric service. In October, new rates were established that reduced the energy charge, and increased the facility charge beginning in 2017. The Board simplified the rate classes by reducing the 16 existing to 6.

Communication with members strengthened throughout the year. We began publishing the Cloverland Connections magazine. The new 20-page format allows more space to provide updates, energy-saving advice, a fun member-provided photo and recipe contest and articles of people, places and things to do in Cloverland's five-county service area. Two-way social media messages keep members informed and up to date on

outages, on-going legal issues and other co-op related news. A typical message draws hundreds if not thousands of page views indicating a strong acceptance of the communication method. Cloverland's account management tool, SmartHub, continues to gain popularity, especially with the seasonal members who can monitor the electric usage at their cabin during the months they are away. Members have also welcomed the access to an interactive outage map wherever they may be with internet service.

Services such as right-of-way maintenance, substation upgrades and infrastructure investments stepped up this year. Members in Sault Ste. Marie, on Sugar Island and in the Soo, Dafter, and Bruce Townships experienced better service reliability as a result of the \$1.2 million right-of-way maintenance project. Members and visitors to Mackinac Island have enhanced reliability and a better view of the bay with the removal of overhead power lines on the water front. The lines were replaced with new underground conductor buried below Main Street. The project also included replacing a 25-year old underground conductor along Fort Street from the marina across the edge of Marquette Park to the Governor's mansion. The \$10.4 million canal restoration project, started in 2014, continued with stage three. Much of the canal restoration between the Johnson Street and Portage Ave. bridges has been completed. The vacated House of Bargains building on Ashmun Street was purchased due to its close proximity to the canal bank and the upcoming repairs in that area. This project is expected to extend the life of the hydropower canal for another 50 years. The renewable hydro power supplies 25-30% of our power needs, saving members nearly \$1.25 million a month.

The activities and decisions of 2016 enable Cloverland Electric Cooperative to continue the mission of providing exceptional service to the members through the delivery of safe, reliable and affordable electricity.

# ANNUAL REPORT 2016



**Dan Dasho**  
President & CEO



**Virgil Monroe**  
Chairperson

# BOARD OF DIRECTORS

AS OF DECEMBER 31, 2016

## DISTRICT A DIRECTORS

**Gerald Nettleton**  
34882 S. McAdams Rd.  
DeTour Village, MI 49725

**TERM EXPIRES**

2017

**Richard Newland**  
1045 S. Caribou Lake Rd.  
DeTour Village, MI 49725

2018

**Jason St. Onge**  
P.O. Box 1840  
Mackinac Island, MI 49757

2019



Virgil Monroe-Chairperson, Charles Litzner-Vice Chairperson, Gerald Nettleton-Sec./Treasurer

## DISTRICT B DIRECTORS

**Carmine Bonacci Jr.**  
3314 S. Sun Glow  
Sault Ste. Marie, MI 49783

**TERM EXPIRES**

2019

**Charles Litzner**  
220 W. 8th Ave.  
Sault Ste. Marie, MI 49783

2018

**John Sawruk**  
2649 W. 14th St.  
Sault Ste. Marie, MI 49783

2017



Seated L to R: Gerald Nettleton, Jason St. Onge, Richard Newland, John Sawruk  
Standing L to R: Carmine Bonacci, Charles Litzner, Ronald Provo, Virgil Monroe, Peter Legault

## DISTRICT C DIRECTORS

**Peter Legault**  
13722 W. Raski Rd.  
Engadine, MI 49827

**TERM EXPIRES**

2019

**Virgil Monroe**  
603 Oak St.  
Manistique, MI 49854

2017

**Ronald Provo**  
521N County Road 441  
Manistique, MI 49854

2018

## DIRECTORS' COMPENSATION DISCLOSURE

Directors do not receive a salary for their service, but by resolution of the board, a fixed sum and expenses, if any, may be allowed for the attendance at cooperative business.

## OFFICER COMPENSATION DISCLOSURE

President and CEO base annual salary is \$273,000 plus benefits.

**REGULAR MEETINGS** ..... \$800  
**SPECIAL MEETINGS** ..... \$400

## REVENUE AND EXPENSES

Operating Statement	2016	2015
Electric Energy Revenue	\$79,435,273	\$78,551,697
Capital Credits Received from Associations	299,361	253,687
<b>Total Operating Revenue</b>	<b>\$79,734,634</b>	<b>\$78,805,384</b>
Generating Expenses	\$4,040,849	\$3,613,062
Cost of Purchased Power	35,139,919	37,527,931
Transmission Expense	9,028,438	8,546,340
Operations	2,776,011	3,012,792
Maintenance	5,385,250	4,658,114
Consumer Accounting and Collections	2,277,231	1,673,858
Customer Service	1,362,200	1,246,266
Sales Expense	121,785	120,155
Administrative and General	4,388,648	4,901,513
Taxes: Property	2,768,714	2,802,965
Taxes: Payroll and Business	(4,000)	1,982
Interest on Long-Term Debt	4,424,979	4,178,632
Interest Expense Other	110,656	145,288
Depreciation Expense	6,098,646	5,706,677
<b>Total Operating Expenses</b>	<b>\$77,919,326</b>	<b>\$78,135,575</b>
Operating Margins	\$1,815,308	\$669,809
Non-Operating Margins	1,046,901	796,397
<b>Total Margins</b>	<b>\$2,862,209</b>	<b>\$1,466,206</b>

## BALANCE SHEET

Assets	2016	2015
Net Utility Plant	\$148,798,379	\$142,910,801
<b>Current and Non-Current Assets</b>		
Cash and Temporary Cash Investments	\$2,790,360	\$822,142
Other Assets and Investments	15,574,964	14,751,170
Accounts Receivable	9,654,724	8,825,913
Materials and Supplies	3,464,147	3,571,531
Other Current and Non-Current Assets	11,072,409	10,337,306
<b>Total Current &amp; Non-Current Assets</b>	<b>\$42,556,604</b>	<b>\$38,308,062</b>
<b>Total Assets</b>	<b>\$191,354,983</b>	<b>\$181,218,863</b>
<b>Equities and Liabilities</b>		
Current and Long Term Liabilities		
Long Term Obligations to FFB <sup>1</sup>	\$111,535,320	\$108,204,725
Long Term Obligations to CoBank	22,656,700	23,716,391
Long Term Obligations to CFC <sup>2</sup>	3,547,818	3,856,375
Current and Accrued Liabilities	20,750,706	15,052,321
Non-Current Liabilities	1,992,775	1,941,894
<b>Total Liabilities</b>	<b>\$160,483,319</b>	<b>\$152,771,706</b>
<b>Equities</b>		
Membership Fees	\$132,330	\$124,845
Margins and Other Equities	30,739,334	28,322,312
<b>Total Equities</b>	<b>\$30,871,664</b>	<b>\$28,447,157</b>
<b>Total Equities &amp; Liabilities</b>	<b>\$191,354,983</b>	<b>\$181,218,863</b>

<sup>1</sup>Federal Financing Bank <sup>2</sup>Cooperative Finance Corporation

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Cloverland Electric Cooperative, Inc. which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of revenue, equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, \$1,278,964 and \$1,325,798 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, 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 March 21, 2017, 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.

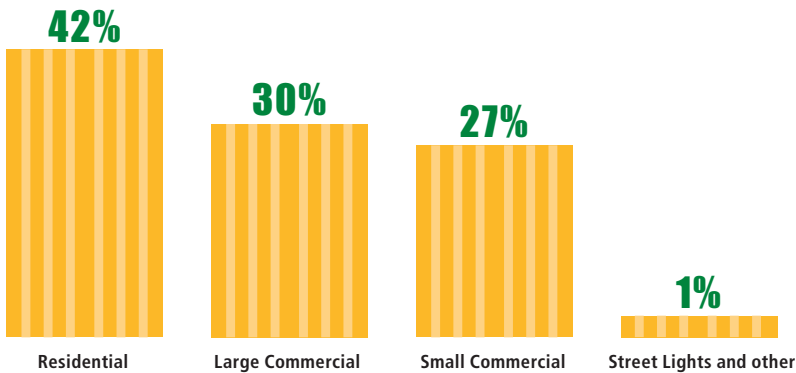
As discussed in Note 20 to the financial statements, the Cooperative has restated its 2015 financial statements to change its accounting for 457(b) retirement plan investments and related deferred compensation liabilities, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



## SUMMARY STATEMENT OF CASH FLOWS

	2016	2015
Net Cash Provided by Operating Activities	\$8,011,307	\$6,508,635
Net Cash Used in Investing Activities	(11,571,922)	(13,213,506)
Net Cash Provided by Financing Activities	5,528,833	5,430,102
Net Increase (Decrease) in Cash & Cash Equivalents	\$1,968,218	\$(1,274,769)
Cash and Temporary Cash Investments, Beginning	822,142	2,096,911
Cash and Temporary Cash Investments, Ending	\$2,790,360	\$822,142

## WHERE DOES IT COME FROM?



## WHERE DOES IT GO?



## 2016 STATS

<b>EMPLOYEES</b> .....	<b>105</b>
<b>SERVICES</b> .....	<b>42,726</b>
<b>TOTAL MEMBERSHIPS</b> .....	<b>34,090</b>
<b>New Memberships</b> .....	<b>1,863</b>
<b>Inactive Memberships</b> .....	<b>2,461</b>
<b>MILES OF ENERGIZED LINE</b> .....	<b>3,497</b>
<b>CAPITAL CREDIT ALLOCATION*</b> .....	<b>\$1,540,955</b>

\*INCLUDES SALES TAX REFUND FOR PRIOR YEAR

## EXECUTIVE TEAM



**Dan Dasho**  
President & CEO



**Todd Chapman**  
Director of  
Communications



**Dianne Hemming**  
Director of Human  
Resources and  
Assistant Controller



**Brian Lavey**  
Director of Engineering



**James Mackie**  
Director of Operations



**Wendy Malaska**  
Director of Member  
Services and Key Accounts



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



**Phil Schmitigal**  
Director of Generation



**Jim Wilson**  
Director of Safety



**Charles Zane**  
Director of Information  
Technology

CLOVERLAND ELECTRIC COOPERATIVE IS AN EQUAL OPPORTUNITY PROVIDER AND EMPLOYER.